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JUNE 15, 2016

TO: BOARD OF DIRECTORS *Paul*

THROUGH: PHILLIP A. WASHINGTON
CHIEF EXECUTIVE OFFICER

FROM: IVAN PAGE *Page*
INTERIM EXECUTIVE DIRECTOR,
VENDOR/CONTRACT MANAGEMENT

SHALONDA BALDWIN *Shalonda Baldwin*
DEPUTY EXECUTIVE OFFICER,
PROJECT MANAGEMENT

SUBJECT: STATUS REPORT OF CRENSHAW/LAX PILOT
BUSINESS SOLUTIONS CENTER (BSC) AND METRO'S
PILOT BUSINESS INTERRUPTION FUND (BIF)

ISSUE

In July 2014, Metro's Board issued Motion 79 which authorized the CEO to establish a Pilot Business Solution Center (BSC) along the Crenshaw Corridor (Corridor). Thereafter, the Board of Directors issued Motion 57 that authorized the CEO to establish a pilot program for a special Business Interruption Fund (BIF) for "mom and pop" businesses along the Crenshaw/LAX Line, Phase I of the Purple Line Extension and the Little Tokyo area of the Regional Connector Transit Project (Regional Connector). In December 2015, Metro's Board authorized the BIF to include the 2nd/Broadway segment of the Regional Connector.

Motion 57 requires Metro staff to provide status reports to the Board of Directors. This report covers Metro's pilot BSC and BIF program activity through May 2016.

BACKGROUND AND DISCUSSION

Since the adoption of the aforementioned Board motions and the Receive and File Status Reports presented September 16, 2015 and January 21, 2016. Metro staff continues to perform actions for the ongoing administration and oversight of Metro's pilot BSC and BIF programs.

(1) Crenshaw/LAX Pilot Business Solution Center Update

As outlined in the Board Box presented April 7, 2016; in light of the comprehensive assessment of Metro's first-ever pilot program, Metro has established a contracting opportunity to provide professional services for the BSC through Request for Proposal (RFP) No. PS28909 released May 24, 2016. The resultant Contract will be for a term of two (2) years. Metro is currently in the blackout period.

(2) Pilot Business Interruption Fund Update

Metro and the contracted fund administrator, Pacific Coast Regional Small Business Development Corporation (PCR), continue to advance efforts for implementation of the historic pilot program. The BIF formally launched in April 2015 and keeping with the objective of supporting "mom and pop" businesses ability to thrive throughout and post construction of transit rail mega projects and experience growth opportunities associated with new transit rail services; Metro has awarded 169 grants to directly impacted small businesses of which 94% have remained in operations post BIF grant award.

A. Performance and Utilization

In effort to ensure the pilot program is prudent yet provides a seamless process for applicants, Metro and PCR has implemented a multi-pronged approach that provides "mom and pop" businesses access to program information through Metro hosted BIF workshops; an interactive on-line application; direct one-on-one consultation with an assigned BIF Business Advisor; and/or on-site client appointments at either the business location, Metro's BSC, Metro's Little Tokyo Community Relations Office and/or the Little Tokyo Small Business Center co-located at Metro's Community Relations office.

The level of commitment and effort of program staff to achieve Metro's objective of supporting "mom and pop" businesses directly impacted by the transit rail construction is demonstrated through the first year program achievements. Following is a high level summary of BIF grant application metrics from February 12, 2015 through May 27, 2016:

- BIF applications submitted to date: 345
 - BIF applications approved to date: 175
 - BIF applications pending completion: 107
 - BIF applications deemed not eligible: 61
 - BIF applications denied: 2
- BIF Grant Payments (total value): \$3,190,469.83.

Eligible "mom and pop" businesses in each transit project area have begun to receive BIF grants as construction activity progresses; which includes the first grantees located in the Japanese Village Plaza of the Little Tokyo area and

2nd/Broadway segment of Regional Connector including Park Mesa Heights of the Crenshaw/LAX Line and others along Phase I of the Purple Line Extension. The following table summarizes the BIF application metrics by transit rail project from February 12, 2015 through May 27, 2016:

	<i>Little Tokyo Area Regional Connector</i>	<i>2nd / Broadway Segment Regional Connector</i>	<i>Purple Line Extension, Phase I</i>	<i>Crenshaw/LAX Line</i>
BIF Applications Submitted	37	9	39	260
BIF Applications Approved	20	1	24	130
BIF Applications Pending Completion	12	7	7	81
BIF Applications Deemed Not Eligible	5	1	8	47
BIF Applications Denied	0	0	0	2
BIF Grant Payment (Value)	\$395,081.92	\$4,063.41	\$378,923.72	\$2,412,400.78
Average BIF Grant Payment (Value)	\$21,949	\$4,063	\$18,044	\$18,701

*BIF Grant Payment (Value) reflects 169 approved and awarded grants as of May 27, 2016.

B. Small Business Outreach

In the course of performing oversight and monitoring of the BIF, Metro staff continues to assess lessons learned and the overall performance of the pilot program. In light of the program being operational for nearly one year a facilitated program review session was conducted in December 2015. As result of the facilitated session; which included the participation of Metro’s Deputy Chief Executive Officer, the Interim Executive Director of Vendor/Contract Management and executive project staff including PCR, lessons learned and areas for continued focus were identified for the pilot program.

Recurring themes, observations and areas of focus include:

- Direct (proactive) outreach and canvassing appears the most effective means to contact small “mom and pop” businesses in effort to provide information and resources on Metro’s BIF.
- The directly impacted small business community has become more receptive to Metro and PCR in light of the BIF program success in granting awards to diverse community of businesses.
- Opposition and/or challenge to the BIF in response to the eligibility requirements for businesses to demonstrate direct impact to Metro construction (businesses located immediately adjacent to the rail corridor and directly affected by Metro construction). Metro staff continues to spearhead strategic initiatives to counter opposition to the program while demonstrating the importance to maintain adherence to the guidelines.

In response, the following activities are ongoing:

- Metro and PCR will continue to advance coordinated outreach and communication activities and strategies to reach businesses in each of the transit rail corridors.

- PCR will continue direct canvassing and continue to provide hands-on support and guidance to business owners.
- Metro's staff will continue to identify opportunities to collaborate with community leaders, business leaders and stakeholders for the implementation of innovative and customized outreach business strategies. Most recently, Metro staff hosted a strategy session with Little Tokyo business and community leaders to focus on opportunities for ongoing outreach and inclusion of small businesses in the program.
- Metro will continue to leverage various platforms to publicize the pilot program and reach the business community such as through the development of a dedicated BIF website for program information, use of social media platforms such as The Source, El Pasajero, Metro's Facebook and Twitter including print media through posting program information in local community publications.

C. Annual Audit Report

Recognizing the importance to develop a fiscally prudent program, Metro's BIF Administrative Guidelines require an annual audit of the program to be conducted by Metro's Management Audit Services Department (MASD). The first annual performance audit was completed in May 2016. The objective of the audit was to determine compliance with the program administrative guidelines and fund disbursement procedures. In summary, MASD reviewed 104 grants totaling nearly \$2 Million paid to 81 businesses for the period of February 1, 2015 to January 31, 2016; and the audit concluded the BIF is being administered in compliance with the administrative guidelines and fund disbursement procedures.

The audit report identified one finding pertaining to Metro Accounting Department's procedures and processes for reconciliation of BIF grant expenditures. Metro's Executive Officer, Finance Accounting concurred with the finding and identified corrective actions. The Performance Audit of Business Interruption Fund Report No. 16-VCM-P02 is provided as an attachment. Based on the continued success of the BIF including the results of the first annual performance audit, Metro staff does not propose any program modification recommendations at this time. Metro staff will continue to assess the ongoing performance of the pilot program and reconvene Metro's internal BIF "tiger team" to address any potential program modifications and/or refinements.

ATTACHMENT

Performance Audit of Business Interruption Fund Report

MANAGEMENT AUDIT SERVICES

PERFORMANCE AUDIT

**Performance Audit of
Business Interruption Fund**

**REPORT NO.
16-VCM-P02**

MAY 2016



Metro

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EXECUTIVE SUMMARY

Introduction

Management Audit Services has completed a performance audit of the Business Interruption Fund (BIF). The purpose of the audit was to validate compliance with fund guidelines. The audit was included in the annual audit plan for fiscal year 2016. The Board of Directors established the BIF to mitigate the financial impact of rail construction on small businesses by awarding grants to cover certain fixed operating expenses. Eligible grant recipients must be “mom & pop” small businesses with 25 or less employees, have operated in the construction zone for at least 2 years, be current with local, state and federal taxing and licensing authorities and provide financial documentation that proves business revenue loss directly due to Metro’s construction disruption. The BIF is a demonstration of Metro’s commitment to being a trusted community builder, partner, and stakeholder.

Pacific Regional Small Business Development Corporation (PCR) serves as the program administrator processing grant payments to eligible small businesses.

Audit Conclusion

We found the Business Interruption Fund is being administered in compliance with administrative guidelines and disbursement procedures. However, we found \$1,242,000 in unrecorded grant expenditures because the Accounting Department records transactions as prepaid expenditures when providing PCR the funds necessary to disburse to small businesses. However, Accounting does not record the expenditures for the funds already disbursed by PCR to small businesses. During the audit, Accounting recorded the grant expenditures amounting to \$1,242,000 already paid by PCR to various businesses.

Summary of Issue

We identified one audit issue in this report. Details of the audit issue are discussed in the Audit Results Section of this report.

Finding 1: BIF Disbursements to Small Businesses are not recorded as Expenditures.

The Accounting Department, due to the lack of written procedures, records the funds advanced to PCR as prepaid expenses. However, grant funds disbursed by PCR to small businesses are not being recorded as expenditures to reduce the prepaid expenses account. Based on the audit, \$1,242,000 in grant expenditures were cleared from the prepaid account and were actually recognized as expenditures.

Recommendation:

Accounting Department should establish procedures for recording recurring grant payments to small businesses as expenditures to reduce the prepaid expenses account.

Management’s Response:

Accounting Department concurred. Effective April 5, 2016, the recurring grant payments to small businesses are being processed similar to an imprest account. The Director of Accounting will ensure that the procedures are updated by June 30, 2016.

INTRODUCTION

Background

Metro has established a Business Interruption Fund (BIF) program to assist small, micro and “mom and pop” businesses adversely affected during Metro’s construction of the Crenshaw/LAX, Little Tokyo portion of the Regional Connector, 2nd & Broadway portion of the Regional Connector and Phase 1 of the Purple Line Extension (Westside Extension).

Businesses eligible for assistance are those located immediately adjacent to the rail corridors, and suffer a decline in revenues compared to the same time in the previous year.

Qualifying applicants must be “mom & pop” small businesses with 25 or less employees, have operated in the construction zone for at least 2 years, be current with local, state and federal taxing and licensing authorities and provide financial documentation that proves business revenue loss directly due to Metro’s construction disruption.

Financial assistance comes in the form of a grant up to \$50,000 per calendar year. Upon approval of a BIF award, the grantee must first use the payment to cover past due amounts for the following fixed business operating expenses:

- Rent/Mortgage
- Utilities
- Insurance
- Payroll

Pacific Coast Regional Small Business Development Corporation (PCR) is the sole source contractor for the BIF which determines business eligibility requirements, as well as analyzes and dispenses grant payments up to \$50,000 to businesses that can demonstrate economic hardship directly related to transit rail construction.

Objective

The objective of the audit was to determine compliance with administrative guidelines and fund and disbursement procedures.

INTRODUCTION

Scope

We reviewed 104 grants totaling \$1,930,000 paid to 81 businesses for the period February 1, 2015 to January 31, 2016.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Methodology

1. To determine compliance with administrative guidelines, we:
 - a. Interviewed internal and external key personnel.
 - b. Obtained a grant listing for the time period and verified the accuracy of the listing details.
 - c. Selected statistical sample of 31 disbursements to compliance test application, analysis, recommendation, approval, and disbursement processes.
 - d. Utilized computer software to conduct analytical review of the disbursement listing.

2. To determine compliance with fund and disbursement procedures, we:
 - a. Interviewed internal and external key personnel
 - b. Obtained Progress/Expenditure Reports for the time period and reviewed for supporting documentation for review and approval
 - c. Agreed deposits to bank account
 - d. Reviewed January 31, 2016 bank account reconciliation
 - e. Reconciled January 1, 2015 to December 31, 2015 disbursements to 2015 1099 Tax Reporting to determine compliance with income tax reporting.

AUDIT RESULTS

General Assessment

The Business Interruption Fund is being administered in compliance with administrative guidelines and disbursement procedures. Adequate controls are in place for the PCR application, analysis, recommendation, approval and disbursement processes of the BIF program. However, controls over the Metro accounting for recording BIF expenditures require improvement.

Data Reliability

We determined the data provided during the course of our audit was sufficiently reliable for the purposes of this report. We tested the data by reviewing detail grant files, bank records, and tax filings.

Finding 1: BIF Disbursements to Small Businesses are not recorded as Expenditures.

Metro, per the BIF Fund and Disbursement Procedures, advances funds to Pacific Coast Regional Small Business Development Corporation (PCR) for the disbursement of grant payments. Requests for funds advancement are submitted by PCR in writing and include a Progress/Expenditure Report, with supporting documentation verifying the disbursement of grant payments made to small businesses. Funds are not released until the contractor submits the completed required report and the report is reviewed and approved by Metro's Project Manager. These procedures are being followed.

However, we found that the recurring advancement of funds was being recorded by the Accounting Department as a prepaid expense. Grant expenditures were not being recorded, due to the lack of written procedures, even though the Progress/Expenditure Reports were included in the disbursement of grant payments. The Accounting Department, after notification, processed journal entries to clear approximately \$1,242,000 in grant expenditures from the prepaid expense account.

AUDIT RESULTS

Recommendation:

Accounting Department should establish procedures for recording recurring grant payments to small businesses as expenditures to reduce the prepaid expenses account.

Management's Response:

Accounting Department concurred. Effective April 5, 2016, the recurring grant payments to small businesses are being processed similar to an imprest account. The Director of Accounting will ensure that the procedures are updated by June 30, 2016.



Diana Estrada
Thu May 12 2016 16:06:35

Diana Estrada
Chief Auditor
April, 2016

Audit Team:
David Butler
Jane Gachucha
Yvette Suarez

APPENDIX

APPENDIX A

Management's Response to Audit:



Metro

Interoffice Memo

Date	May 9, 2016
To	Diana Estrada Chief Auditor Management Audit Services
From	Jesse Soto Executive Officer, Finance Accounting
Subject	Response to Annual Audit of Business Interruption Fund Report No. 16-VCM-P02

OVERVIEW

I have reviewed the results of the subject draft report, and I concur with your recommendation in the report. I recognize that corrective measures must be undertaken to establish procedures for the timely recording of recurring grant payments to small businesses as expenditures.

CORRECTIVE ACTIONS

Effective April 5, 2016, the recurring grant payments to small businesses are being processed similar to an imprest account. The Director of Accounting will ensure that the procedures of the Business Interruption Fund are updated by June 30, 2016.

Should you have any questions, please feel free to call me.

Thank you.

CC: Nalini Ahuja, Executive Director, Finance and Budget
 Ivan Page, Interim Executive Director Vendor/Contract Management
 Shalonda Baldwin, Deputy Executive Officer, Project Management VCM
 Jane Moshin, Director of Accounting
 Alex Perez, Director of Accounting