



Metro

Metropolitan Transportation Authority

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JULY 25, 2017

TO: BOARD OF DIRECTORS

**THROUGH: PHILLIP A. WASHINGTON
CHIEF EXECUTIVE OFFICER**

PAW

**FROM: DIANA ESTRADA
CHIEF AUDITOR**

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**SUBJECT: RESPONSE TO QUESTIONS REGARDING FISCAL YEAR 2016
UNRESOLVED LOCAL RETURN AUDIT FINDINGS**

ISSUE

At the Finance, Budget and Audit Committee (FBAC) meeting on July 19, 2017, Director Krekorian inquired about the remaining unresolved amounts resulting from the Fiscal Year (FY) 2016 Financial and Compliance audit of the Local Return fund for Proposition A, Proposition C and Measure R. Additionally, Director Krekorian raised the question whether there was any conflict of interest for Vasquez and Company, (Metro's contracted auditors) for the audit of the Proposition A, Proposition C and Measure R local return funds for the year ended June 30, 2016 because the firm was also contracted by the City of Compton for forensic audit services.

This report addresses these questions.

DISCUSSION

Unresolved Amount

As of July 20, 2017, the total unresolved amount for Proposition A, Proposition C and Measure R Local Return is \$3,535,506. The reported unresolved amount ties to the auditors' recommended amounts that the cities should return to their appropriate Local Return accounts.

List of cities with unresolved amounts is as follows:

City	Total
Artesia	\$ 133,837
Bell Gardens	307,334
Compton	2,000,054
Covina	46,290
Downey	182,659
Glendora	11,395
Hawaiian Gardens	81,685
La Mirada	81,786
Lomita	20,513
Lynwood	1,079
Monterey Park	100,000
Norwalk	2,982
Rolling Hills Estates	26,145
San Dimas	61,714
South Pasadena	114,233
West Covina	363,800
Total	\$ 3,535,506

Note 1

Note 1: Of this amount, \$1,952,937 pertains to the unsupported costs discussed at the FBAC meeting for the City of Compton.

Details of the total unresolved amounts for all of the cities are included in Attachment A.

No Conflict of Interest

There was no conflict of interest for Vasquez and Company in the performance of the two audits: 1) financial and compliance audit for the local return funds and 2) forensic audit for the City of Compton. Vasquez already concluded on the City of Compton's compliance audit of the local return funds on December 20, 2016. Vasquez and Company advised Metro Project Manager that the City of Compton hired Vasquez and Company for the forensic audit on December 21, 2016. The period of performance for the forensic audit is from December 21, 2016 through February 28, 2017. Therefore, there was no overlap in the services. Additionally, a separate audit team led by a different engagement partner completed the forensic audit which had a different audit scope from Metro's local return fund audit.

Vasquez and Company follows the independence requirements and ethical standards by the American Institute of Certified Public Accountants (AICPA). Vasquez and Company's system of quality control including compliance with the independence and objectivity requirements by the AICPA is reviewed regularly through the independent

peer review program by the AICPA. Attachment B includes the results of Vasquez's most recent peer review accepted by the AICPA.

NEXT STEPS

Metro's Local Return Program Manager is working with the cities to resolve the findings. In addition, the respective auditors will validate the resolution of the findings in the FY17 audits.

ATTACHMENTS

- A. Details of Unresolved Amounts as of July 20, 2017
- B. Vasquez's Peer Review Results

Details of Unresolved Amounts as of July 20, 2017

City	Prop A	Prop C	Measure R	Total	Status	CPA Firm
	A	B	C	D=A+B+C		
Artesia	84,379	49,458	-	133,837	Payroll costs were charged based on estimates. In addition, Program Administration costs exceeded 20% cap by \$27,542 and \$14,482 for Prop A and Prop C, respectively. Auditors will verify whether the City implemented the auditor's recommendation during the FY 2017 audit. The City is required to return \$27,542 and \$14,482 to the Prop A and Prop C Local Return accounts regardless of supporting documentation of payroll costs. Auditors will verify whether the costs that exceeded 20% admin cap were returned to the Local Return account.	Simpson
Bell Gardens	123,021	184,313	-	307,334	Payroll costs were charged without proper supporting documentation. Auditors will determine during FY 2017 audit whether the City implemented actual time charge controls.	Vasquez
Compton	166,723	703,774	1,129,557	2,000,054	Total of \$2,000,054 consists of: 1) Unsupported cost of \$1,952,937. The City is retrieving timecards and identifying the eligible Local Return Funds activities. Auditors will review the documentation during FY 2017 audit. 2) \$47,117 of costs that need to be reclassified from Prop A to Prop C. The City recorded Prop C eligible expenditures in Prop A. The City will record an adjustment to reclassify the cost, and Auditors will verify it during FY 2017 audit.	Vasquez
Covina	46,290	-	-	46,290	Payroll costs charged based on predetermined percentages. The City stated that time cards are required for all City employees. Auditors will verify during FY 2017 audit.	Simpson
Downey	137,000	25,366	20,293	182,659	Payroll costs were charged based on estimates. The City hired a consultant to conduct a cost allocation study, and the report will be submitted to the City Council in September 2017. Auditors will verify the information if the cost allocation report is available during FY 2017 audit.	Simpson
Glendora	-	11,395	-	11,395	Administrative expenditures exceeded 20% cap by \$11,395. The City is required to return the money to the Local Return account. Auditors will verify whether the City returned the money during FY 2017 audit.	Simpson

Details of Unresolved Amounts as of July 20, 2017

City	Prop A	Prop C	Measure R	Total	Status	CPA Firm
	A	B	C	D=A+B+C		
Hawaiian Gardens	38,388	43,297	-	81,685	Payroll costs were charged based on predetermined percentages. Auditors will verify whether the City implemented the recommendation during FY 2017 audit. Administrative expenditures exceeded 20% cap by \$7,029. The City is required to return the money to the Local Return account. Auditors will verify whether the City returned the money during FY 2017 audit.	Simpson
La Mirada	81,786	-	-	81,786	Payroll costs were charged based on predetermined percentages. Auditors will verify whether the City implemented the recommendation during FY 2017 audit.	Simpson
Lomita	20,513	-	-	20,513	Payroll costs were charged based on estimates. Auditors will verify whether the City implemented actual timecard controls during FY 2017 audit.	Simpson
Lynwood			1,079	1,079	The City stated that the City erroneously recorded the expenditure to Measure R. The City will make an adjustment in FY 2016/17, and Auditors will verify it during the FY 2017 audit.	Vasquez
Monterey Park	100,000	-	-	100,000	The City charged general liability insurance expenditure based on budget. The City will revisit the allocation methodology in FY 2017. Auditors will verify whether the City implemented proper controls to charge a reasonable amount.	Vasquez
Norwalk	-	2,982	-	2,982	Payroll costs were charged based on estimates. Auditors will verify whether the City implemented actual timecard controls during FY 2017 audit.	Simpson
Rolling Hills Estates	26,145	-	-	26,145	Payroll costs were charged based on estimates. Auditors will verify whether the City implemented controls to charge employees' actual working hours.	Simpson
San Dimas	61,714	-	-	61,714	Payroll costs were charged based on budget estimates. Auditors will verify whether the City implemented controls to charge employees' actual working hours.	Simpson

Details of Unresolved Amounts as of July 20, 2017

City	Prop A	Prop C	Measure R	Total	Status	CPA Firm
	A	B	C	D=A+B+C		
South Pasadena	100,322	13,911	-	114,233	Payroll costs were charged based on predetermined percentages. Auditors will verify whether the City implemented the recommendation during FY 2017 audit. Purchases orders were not issued as required by the City's policies and procedures. Auditors will verify whether the City implemented procedures to ensure that Purchase Order policies are being correctly followed.	Simpson
West Covina	-	312,345	51,455	363,800	Payroll costs were charged based on predetermined percentages. City stated that it implemented controls in June 2016. Therefore, Auditors will verify during FY 2017 audit.	Simpson
Total	986,281	1,346,841	1,202,384	3,535,506		

February 22, 2017

Gilbert R. Vasquez
Vasquez & Company, LLP
801 S Grand Ave Ste 400
Los Angeles, CA 90017

Dear Mr. Vasquez:

It is my pleasure to notify you that on the National Peer Review Committee accepted the report on the most recent system peer review of your firm. The due date for your next review is September 30, 2019. This is the date by which all review documents should be completed and submitted to the administering entity.

As you know, the report had a peer review rating of pass. The Committee asked me to convey its congratulations to the firm.

Sincerely,



Michael Fawley
Chair—National PRC
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cc: Lucretia D. Terrell; Roger A. Martinez

Firm Number: 10138115

Review Number 424560

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