



June 9, 1995

Los Angeles County
Metropolitan
Transportation
Authority

TO: Board of Directors
THROUGH: Franklin E. White
FROM: Judith T. Pierce
SUBJECT: SUMMARY REPORT ON AUDIT OF TRANSPORTATION
FOUNDATION

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A financial audit of the Los Angeles Transportation Foundation has been completed by Simpson and Simpson, certified public accountants, for the periods ending, June 30, 1993, June 30, 1994 and December 31, 1994. An unqualified audit report was issued for each period.

At the request of MTA management, a Management Report was also prepared by the auditors which contained recommendations relative to improving the management, productivity and controls of the Foundation, including the development of processes and procedures for the administration.

Other recommendations in the report: develop operating procedures which address Board's management and fiduciary responsibilities; develop an organizational plan and chart; develop and implement a strategic and financial development plan; and develop an annual work plan and budget.

Foremost among the recommendations is one which calls for the greater administrative separation of the Transportation Foundation from the MTA, specifically relative to financial and administrative procedures.

Staff is currently moving forward in the implementation of necessary structuring and changes. Final action plans will be completed with the approval of the Foundation Board of Directors and accomplished throughout fiscal year 1995-96.



June 8, 1995

TO: Transportation Foundation Board of Directors

THROUGH: Franklin E. White

FROM: Judith T. Pierce

SUBJECT: Transmittal of MTA Management Responses to the Audit of the Transportation Foundation of Los Angeles

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Attached are MTA management's responses to the audit findings; audited financial statements for FY 1993; audited financial statements for FY 1994; audited financial statements for the six months ending December 31, 1994; and management recommendations from the auditors.

BACKGROUND

In January, 1995, MTA management requested financial and management audits of the Foundation. The Office of Internal Audit through the outside CPA firm of Simpson & Simpson audited the financial statements of the Foundation for fiscal years ending 1993, 1994, and for the six months ending December 31, 1994. Additionally, Simpson & Simpson prepared management recommendations to strengthen the Foundation, improve internal financial processes and controls, and promote efficiency.

Based on management's review of the Foundation and the financial and management audit reports, MTA staff will be recommending that the Foundation Board take the following actions:

1. The Board of Directors of the Transportation Foundation should adopt the recommendations made in this report and direct MTA staff to begin implementation immediately.
2. The Board of Directors of the Transportation Foundation should work with the MTA Chairman to bring the board to its full strength and appoint a new chairman for the Foundation.

MANAGEMENT RESPONSES TO AUDIT FINDINGS AND RECOMMENDATIONS:

The following are the findings and recommendations of Simpson & Simpson and management's response to each:

Finding #1

The Foundation qualifies as a corporation exempt under Section 501(c)(3) of the Internal Revenue code. In the course of performing our review for the period ended December 31, 1994, we noted that the Foundation has not filed any of the CT-2 Forms with the Attorney General of California. Additionally, for fiscal year 1993/94 the Foundation has not filed any tax returns.

Recommendation

- A. *We recommend that the Foundation avoid any further delay and file all the necessary tax returns.*
- B. *The Foundation needs to develop operating procedures that address its management and fiduciary responsibilities.*

Management Response

Management concurs. MTA Accounting will file the appropriate tax returns and forms by June 30, 1995.

Finding #2

The Foundation does not have a written organizational chart which shows staffing positions and responsibilities. Additionally, there were no written roles and responsibilities of board members informing them of their fiduciary duties. We believe that written documentation of roles and procedures should help the board become an effective functioning unit of leadership and control for the Foundation.

Recommendation

We recommend that the Foundation develop an organizational plan which includes an organizational chart, written definitions of roles and responsibilities for the board, staff, and committees. These should clearly define the Foundation's relationship with Los Angeles County Metropolitan Transportation Authority (LACMTA) and should include written policies and procedures to govern management decision making and organizational directions. Once implemented, the board members should have evidence of being in conformity with these policies.

Management Response

Management concurs.

- A. Organization chart, board and staff roles and responsibilities, and relationship of Foundation Board to MTA/MTA Board will be drafted by Department Manager by September 30, 1995.

B. Policies and procedures will be completed by March 30, 1996.

Finding #3

The Foundation does not have a plan which defines its vision, sets forth its goals, and develops benchmarks for how the organization defines success. Furthermore, there were no written plans for programs, public relations, and fund development.

Recommendation

We recommend that the Foundation implement a strategic plan and a financial development plan to define and achieve its vision, goals and objectives. Also, we recommend that the board actively participate in shaping the plan; adopt the plan; and periodically review and monitor accomplishments. The plan should include an annual review to ensure that the Foundation is organized, staffed, managed, controlled and directed appropriately in order to achieve its vision. The plan should include a strong financial development plan and a focused and highly targeted public relations component that, together, address how the Foundation will ensure its future and achieve its objectives. The Foundation should assign a specific individual to ensure the organization's mission and programs are defined and accomplished.

Management Response

Management concurs. The Foundation will prepare a strategic plan and a financial development plan for the Transportation Foundation no later than February 1, 1996. The strategic plan will include a public relations component that will address how the Foundation will ensure its future and achieve its objectives. Department Manager will oversee the work of the consultants and ensure the organization's mission and programs are defined and accomplished. The consultants would be selected by competitive process and paid from the Transportation Foundation funds budgeted for this purpose.

Finding #4

There was no interest allocation made to the Foundation since its inception. Throughout the years the Foundation maintained an average cash balance of \$270,000. There should have been interest added to the Foundations financial statements. Also, the revenues of the Foundation were partially being deposited into the LACMTA's general fund. Additionally, we noted that the Foundation did not account for the expenditures of its programs separately.

Recommendation

- A. *We recommend that the Foundation set up its own chart of accounts which meet the guidelines of accounting of non-profit organizations and the governmental accounting policies.*
- B. *We recommend that the Foundation's cash balance which is accounted for in the LACMTA's general fund be transferred into the Foundation's separate bank account with signatory consent by the Foundation's board and/or its designee(s). Financial policies and procedures need to be developed and adopted by the board. Appropriate account signatures need to be defined by the Foundation's board. Limits for approval for spending need to be established in the policies and rigidly enforced; and the issue of interest earnings must be addressed.*

Management Response

Management concurs.

- A. We agree and will account for the activities of the Transportation Foundation in a separate fund.
- B. A separate bank account has been established for the Transportation Foundation.
- C. The Foundation will establish a simple chart of accounts that meets the guidelines of accounting of non-profit organizations and governmental accounting policies.
- D. Accounting, with Treasurer oversight, will transfer all Foundation funds into a single Transportation Foundation account. The Foundation account signatories procedure will be developed by August 31, 1995.
- E. The Foundation has prepared a budget for fiscal year 1996; it is included in the MTA budget.
- F. The MTA Treasurer's office will oversee the Foundation's account and ensure that it is receiving the highest possible return, until the Transportation Board of Directors directs otherwise.
- G. Financial policies and procedures will be developed and adopted by the board by March 30, 1996.
- H. Any past interest earned by Foundation funds while residing in the MTA account will go toward reducing the MTA subsidy of Foundation staff expenses, specifically Program Manager's salary, benefits and related overhead. This interest will remain in the MTA general fund. The MTA Treasury office will research and

report to the Foundation board, the amount of interest earned in current and past periods by August 31, 1995.

Finding #5

We noted that the Foundation does not have an annual budget of revenues and expenditures which is understood and approved by the board and prepared by the staff of the Foundation.

Recommendation

We recommend that the Foundation develop an annual work plan and budget tied to specific deliverables. Also, we recommend that the board establish a financial investment committee to meet monthly to review investments, create an investment policy and monitor the variance of actual against budget.

Management Response

Management concurs.

- A. The Foundation has developed an annual work plan and budget tied to specific deliverables for fiscal year 1996.
- B. The Foundation will have a 3-5 year budget projection, as a part of its strategic planning and financial planning objectives.
- C. The Foundation board will establish a Finance And Budget Committee to create a fund development policy, review investments and monitor the variance of actual expenses against budgeted expenses. This committee will not meet monthly as auditors suggest. This committee will meet annually or more frequently if needed. The committee is expected to be convened by Spring, 1996.

Finding #6

We noted that the Foundation does not have a written plan for fund raising activities.

Recommendation

We recommend that the Foundation establish a financial Fund Development Plan to define its key sources of funds and the specific strategies that will be used over time, to ensure: 1) an adequate and growing source of financial support and 2) the long term development of an endowment fund to generate through earnings, 50% or more of the Foundation's operating requirements. Further, the foundation should not assume, in its projections, a specific or on-going level of in-kind and or cash support by LACMTA without an LACMTA board approved decision.

To ensure a stable budget and organization planning the Foundation should seek to clarify what specifically would be LACMTA's future commitment and connection with the LACMTA staff and board.

Management Response

Management concurs.

- A. The Foundation will commission a Financial Development Plan, as described above.
- B. The Foundation will work with its board, staff and MTA representatives to clarify its financial projections, define a specific and on-going level of in-kind and/or cash support by LACMTA, and seek LACMTA board approval for its 3-5 year recommendations.

Finding #7

In-Kind contributions, e.g., indirect costs from LACMTA were not allocated to the Foundation. Indirect costs include the salary and fringe benefits provided by LACMTA, as well as the costs incurred by LACMTA's departments in supplying goods, services, and facilities to the programs of the Foundation. For financial statement purposes, the auditors determined the in-kind contributions.

Recommendation

We recommend that in-kind contributions be allocated to the Foundation on a monthly basis. This allocated amount should be in writing, with appropriate financial schedules, and the specific assumptions used to determine allocated amount. Furthermore, these schedules should be approved by the Foundation's management and board. Suggested methods are as follows: For personnel support, a percentage may be computed based on the time an individual spends on each program. This percentage would be multiplied by the salary to compute indirect labor. Costs for facilities may be computed based on square footage used by the Foundation. Only clearly measurable basis of supplies and usage of computers should be included in the computation of an in-kind contribution.

Management Response

Management concurs. Accounting office will allocate MTA's in-kind contributions to the Foundation monthly, beginning January 1, 1996 and retroactive to date of inception. Department Manager will work with Accounting.

Finding #8

Although LACMTA has procedures developed for cash receipts and disbursements, we noted several occasions where the contribution checks were not deposited in a timely manner. Delays from the date of the issuance to the date of deposit ranged from two weeks to three months. Additionally, we noted that the LACMTA could use the Foundation's funds prior to receiving approval from an authority of the Foundation.

Recommendation

We recommend that LACMTA implement the procedures in place to ensure that contributions are deposited in a timely manner. Also, we recommend that separate signature authority be assigned for the Foundation to avoid any unauthorized transactions. see recommendations above.

Management Response

Management concurs with all points and will follow through on required planning and implementation of agreed upon procedures. Department Manager will coordinate with Accounting.

Finding #9

The Foundation was not able to provide supporting documentation for an expenditure as follows:

<u>Amount</u>	<u>Payable to</u>	<u>Check #</u>	<u>Date</u>
1,900	Kate Cooper	42781	3 3 94

This expenditure was for the Skydivers for the LA Marathon sponsored by the Foundation. We also noted two payment vouchers which were not properly voided as shown in the general ledger.

Recommendation

We recommend that LACMTA provide the Foundation with the supporting documentation and make the appropriate journal entries if necessary. Furthermore, we recommend that the Foundation maintain adequate supporting documentation for all payment vouchers. Additionally, we recommend that an effective system be implemented where all voided payment vouchers are stamped void.

Management Response

Management DOES NOT concur.

- A. The supporting documentation was found and the appropriate journal entries were made, while the audit report was being written.
- B. The department manager will put into place a revenue and expense file with supporting documentation by August 31, 1995.
- C. In regards to the voided payment vouchers, the department manager will obtain further information before developing a correcting procedure. The correcting procedure will be included in the financial procedures to be developed, as noted above.

General Recommendation

For the six months ended December 31, 1994, we noted that all the activities of the Foundation are being maintained by LACMTA. Currently the activities of the Foundation appear to be as an insignificant fund of LACMTA. We believe that it is the Foundation's board intent to expand and extend its programs in order to achieve its mission. Along with the previous recommendations included herein, we recommend that the Foundation:

- 1. Become an independent entity from LACMTA to avoid any possible appearance of conflict of interest, and*
- 2. Establish an organizational plan during the transition period to ensure that the activities of the Foundation are being appropriately performed and accurately accounted for.*

Management Response

- A. MTA Legal will review the charter and practices of the Transportation Foundation and determine what policies need to be put into place governing the Foundation's fund raising practices vis-à-vis its current relationship with the MTA.
- B. The long term relationship (organizational, financial, structural, physical, etc.) between MTA and the Foundation will be addressed by the Foundation Board as a part of its strategic planning process.
- C. The strategic plan will include actions to transition the organization from where it is currently to where it needs to be.

Additional Recommendations from MTA Internal Audit

In addition to the Simpson & Simpson recommendations, the Office of Internal Audit has also recommended the following:

1. *A review of the current composition of the Foundation Board of Directors to ensure that it has proper representation and that members have the necessary interest and expertise in the areas of nonprofit fund raising, finance, management or other helpful skills, and that they have sufficient time to devote to the Foundation.*

Management Response

- A. There are currently five positions on the Foundation Board of Directors. The role and responsibilities of these directors and therefore their qualifications and desired expertise will be defined in the strategic plan.
 - B. This recommendation from IA will be given to the planning consultants and will be addressed in the plan.
2. *The Board fully develop strategies which clearly define allowable fund raising activities, program activities and expenditures.*

Management Response

Management concurs. The issues will be brought to the attention of the Foundation Board of Directors. MTA Legal will be asked to rule on conflict of interest issues.

3. *An outside accounting firm be hired to assure the Foundation has sound financial and accounting controls, to prepare overdue tax forms, to establish a computerized general ledger accounting system which has the capability of producing checks and monthly financial statements, and to train the Foundation staff on the operation of the accounting system.*

Management Response

- A. Staff, with assistance from Accounting, will prepare financial policies and procedures.
 - B. Staff will discuss with Accounting the various costs and benefits of hiring a firm or handing the Foundation's bookkeeping and financial functions inside. A recommendation will be made to the Foundation Board by March, 1996.
- cc: See Distribution List

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