

MINUTES

**Independent
Citizens'
Advisory and
Oversight
Committee**

**INDEPENDENT CITIZENS' ADVISORY
AND OVERSIGHT COMMITTEE MEETING**

**Metro Headquarters
3rd Floor - Board Room
One Gateway Plaza
Los Angeles**

One Gateway
Plaza
Los Angeles, CA
90012

Tuesday, January 27, 2009 – 2:30 P.M.

213-922-4600

Called to order at 2:37 p.m.

Members Present:

Brian Russell, Chair
Emina Darakjy, Vice Chair
Dwight Ham
Russ Lesser

1. **APPROVED minutes** of Regular Board meeting held **February 1, 2008.**
2. **RECEIVED AND FILED FY 2008 Audit of Propositions A & C Revenues and Expenditures.**

Terry Matsumoto, Chief Financial Services Officer and Treasurer, reported that the independent auditors have found that, for the tenth consecutive year, Metro is in compliance with requirements applicable to Proposition A and Proposition C Revenues and Expenditures.

Director Darakjy noted that the audit report was conducted in October 2008 but that the ICAOC Board did not receive the documents until December 2008. She asked if it was possible for the ICAOC members to review the report as soon as it becomes available.

Mr. Matsumoto responded that the agency is subject to a number of different audits. The Comprehensive Annual Financial Report (CAFR) is another major

audit conducted by external auditors. Staff needed to wait until the CAFR was completed to release the ICAOC audit. He noted that the ICAOC audit and the CAFR work hand-in-hand.

Director Ham asked how the spike in oil prices has impacted Prop A and C revenues.

Mr. Matsumoto responded that when fuel prices reached record levels in September 2008, the sales tax revenue for that quarter was 2% below that of the prior year. He stated that the general economic climate resulted in a detrimental impact on sales tax receipts even though fuel prices spiked.

Director Ham asked how this will impact revenue projections for the remainder of the fiscal year.

Mr. Matsumoto responded that Prop A and C actual receipts will likely fall below the amounts projected in the FY09 budget adopted in May 2008. The question is how much lower the actual receipts will be relative to the projected amounts. It is possible that the actuals will be approximately 5-10% below the projected revenues for the entire year.

Director Darakjy asked why the revenues for Prop A and C are not nearly identical given that both are half-cent sales taxes.

Mr. Matsumoto stated that the revenues for Prop A and C are almost the same and off by only a few thousand dollars. He added that Measure R becomes effective July 1, 2009 and will increase sales taxes by another half cent. This may have a dampening effect on sales tax revenues.

Director Darakjy asked if the independent auditors are using the new statement of auditing standard #114 relating to open communications between the independent auditor and the governing body.

A representative from independent auditing firm Thompson, Cobb, Bazilio & Associates (TCBA) responded that in all of the audits conducted by the firm in which an audit committee is involved, staff communicates with members of the audit committee to obtain feedback.

In this situation, the firm does not view the oversight committee in the same light. The client in this case is Metro. The firm communicates with Metro staff. The representative clarified that relating to the timing of the issuance of

the audit report, the auditors did not complete fieldwork testing until October 23, 2008. The auditor typically does not issue the report until, at the earliest, two weeks after the end of fieldwork testing. There is typically at least a three-week window to allow for internal quality review and to enable Metro to review the draft report.

Director Ham noted that in 2008 there was a negative variance for Prop A at the end of the year. He asked if the transfers-in to support Prop A and C are coming from the net fund balances from previous years.

Mr. Matsumoto responded that the ordinance calls for revenues and expenses but does not provide for balance sheets. He noted that transfers-in primarily help pay for debt service. Other transfers may depend on where a project is located in the agency's accounting system.

Director Ham asked if further expenditures related to Prop A and C will be going toward train safety initiatives given the recent train accident in Chatsworth.

Mr. Matsumoto responded that there is a category of Proposition C called "commuter rail" used to fund Metrolink operating and capital needs. The Metro Board has committed to providing funding to Metrolink for safety measures.

Director Ham asked if Metrolink's ridership has been impacted by the accident.

Mr. Matsumoto responded that several factors contribute to ridership levels, including but not limited to the price of fuel. He noted that ridership on Metrolink is still strong.

Director Darakjy asked if there are any non-material weaknesses in the audit.

A representative from TCBA responded that the auditors did not come across anything that resulted in an issuance of a report or management letter. He added that the auditors have always issued a clean report to Metro.

Director Darakjy, referring to page 8 of the audit report, noted that administrative and other costs have increased by approximately 11%. She

asked for more clarification on this given that the revenues have remained relatively the same.

Mr. Matsumoto responded that planning activities in preparation for Measure R have been significant, and that costs related to such activities are included in administrative and other costs. These costs will increase as projects proceed from the environmental stage to the preliminary engineering stage.

Director Ham asked if there is any anticipated funding from the federal government to enable the agency to more effectively use energy resources.

Mr. Matsumoto responded that public transportation agencies nation-wide have been disappointed with the amount of federal funding set aside for transit projects. He noted that funding has been prioritized for ready-to-go projects.

Director Russell asked about the possibility that the state of California may raid these transit funds.

Mr. Matsumoto responded that there has been a great deal of discussion on the method of allocation. The agency would like to use the MPO model in which funding flows from the federal government to the local MPO (i.e., Southern California Association of Governments) and is spread within the county. Although this method bypasses the legislature, the majority of the stimulus in transportation is highway-oriented, which would have to go through the state.

Director Darakjy expressed interest in finding out any examples of non-compliance by individual cities with regard to their use of Prop A and C funds.

Mr. Matsumoto stated that cities have the option of adding a scope of work to their own regular audits to determine compliance with Prop A and C guidelines. Those reports would be included in the cities' own financial statements, and issues of non-compliance are reported to Metro's Planning Department.

3. APPROVED:

- A. scheduling a **Public Hearing** for Monday, April 6, 2009 at **2:30 p.m.** ~~10:00 a.m.~~ to receive input on FY 2008 Audit of Propositions A & C Revenues and Expenditures; and
- B. the **Notice of Intent to Hold Public Hearing**.

4. Public Comment – none.

ADJOURNED at 3:10 p.m.

Prepared by: Michele Chau
Board Specialist