



RON GALPERIN
CONTROLLER

December 19, 2014

Honorable Eric Garcetti, Mayor
Honorable Michael Feuer, City Attorney
Honorable Members of the Los Angeles City Council

Re: Audit of Proposition C: Funding the City's Transportation Priorities

By 1990, traffic congestion in the Los Angeles region had become so unbearable that frustrated residents did something they had not done in a decade: they voted to tax themselves to pay for transportation improvement projects. Prop C, also known as the "1990 Fast-Track Anti-Gridlock Transit Improvement Proposition," raised sales taxes in the County by a half-cent. Revenue from the tax surcharge was slated for a range of transportation improvements, like doubling the region's bus fleet, building new park-and-ride lots, and adding car-pool lanes to area freeways.

When the measure passed, Mayor Tom Bradley stood up at a City Hall press conference and said, "we can all cheer the effective use of funds made available by the will of the people."

Or can we?

Today my office is releasing a new audit report, "Proposition C: Funding the City's Transportation Priorities." The report, which focused on activities from 2009 to 2014, looks at how Prop C funds have been handled by the City's Department of Transportation, which is responsible for administering and accounting for them. The report focused on three areas: planning, project management, and accounting, and determined that the City has not fully capitalized on Prop C funding opportunities — as a result, we have not been doing all we can to improve transportation in and through our City.

Overview

The Los Angeles County Metropolitan Transportation Authority (Metro) distributes Prop C revenues to local jurisdictions like the City of Los Angeles in two forms:

- Local Return Funds: Allocated monthly to local jurisdictions on a per capita basis;
- Call for Projects (Call): A competitive grants process that distributes funds to regionally significant transportation projects.

Since Prop C passed, the City has received \$847 million in Local Return Funds. It has received an additional \$851 million in competitive grants from Metro, but DOT was not able to specify how much of that money was funded by Prop C Call projects.

Annually, Prop C accounts for about 30% of DOT's budget. Prop C funds have been used by the City on projects such as traffic signal synchronization systems, the widening of the 405 freeway and the construction of a bike path along the L.A. River. Our audit looked at both the Prop C Local Return funds administered from 2011 through 2014, and Call fund awards for the years 2009, 2011 and 2013.

Key Findings:

- **The DOT has not had a long-term transportation plan.** As such, Prop C funds are both allocated and applied for on an ad-hoc basis, and generally have not been used to support an overall vision for transportation in the City — or the County, for that matter.
- **The DOT typically proposes the minimum amount in the local match category for the Call for Project applications, spreading its own resources thinly across many projects.** Our research indicates the City could potentially secure more money by committing more matching funds — but for fewer projects. While the City receives Local Return dollars based on a per capita formula, the City has received, on average, just 27% of the Call funds awarded through grants since 1993 -- even though the City's population has consistently made up about 40% of the County's population.
- **The DOT lacks a comprehensive project management system.** Manual processes and irregular reporting lead to lax oversight and inaccuracies. For example, in 2011, DOT staff discovered more than \$42 million in a transportation special fund that should have been transferred to the General Fund. Moreover, DOT was unable to accurately report to our auditors the number of Prop C-funded projects it has completed — or the costs of those projects. Our auditors also found the failure to properly track projects led to cost overruns, which were absorbed by the City treasury. Because DOT couldn't provide a full list of Prop C-funded projects, we can't tally the total amount of the overruns. But, of twelve projects studied, our auditors found that nine exceeded their budgets.
- **Special revenue funds associated with Prop C funding are not completely transparent and accounting methods are lacking.** Earlier this year, my office released a study of the City's special funds, which now number more than 1,000. We committed ourselves to review the funds -- and, indeed, we found several discrepancies in the funds used to collect and manage Prop C revenues. Overall, auditors determined that the DOT can't determine available balances or allocate

money with complete accuracy. For example, auditors discovered that grants receivables were overstated by nearly \$300 million in the city's financial system (although this misstatement was corrected in the city's financial statements). \$2.6 million in costs had not been billed for in a timely manner — delaying the City's receipt of revenues and interest income.

Key Recommendations:

- **DOT management and the Mayor's Office should implement the Strategic Capital Planning Group, as called for in the DOT's "Great Streets for Los Angeles" plan.** The group should create both long- and short-term transportation plans, establish funding priorities for them, and submit Call for Projects applications to support them. This group should also consider reducing the number of project applications it submits, and commit higher local match amounts to those it does submit.
- **DOT Management should evaluate and implement a project management system** to track projects and milestones.
- **DOT management should work with my office to explore the purchase of a grants accounting module** to track grant revenues and expenditures across City departments. I have also called on my office's Accounting Operations Division to develop guidelines for posting common transactions to ensure accounting practices are transparent and accurate.
- **The City should consider the adoption of a central grants management program to track grants across all departments** -- as discussed in prior audits.

A New Approach:

The practice of the Controller's Office in Los Angeles has typically been to issue its audits and thereafter provide departments and auditees with 30 days to provide a formal response and action plan. Consistent with our commitment to seek and affect change and to try new practices, we invited the DOT to provide its action plan *before* releasing the report. Such advanced submittals is a practice utilized by several other public agencies at the state and local levels.

DOT management not only shared its response to the audit with us, but indicated several ways in which the very process of auditing had already affected reform in the department. Notably:

- In September 2014, the department issued its strategic plan, "Great Streets for Los Angeles" which calls for the creation of both long- and short-term transportation goals for the City, the implementation of a project management tool, and the integration of a computerized accounting system.

- Also in September, the department submitted a FY 2014-15 Transportation Grant Fund report to the Mayor and Council. The report details various ways the department is working to ensure greater accounting accuracy in the management of special funds.

In some cases, DOT has indicated that it cannot take action without additional resources. While we understand and appreciate DOT's staffing needs, we urge the department to prioritize existing resources to address the issues we have raised while emphasizing that a more strategic approach to grants applications will likely yield additional transportation funding from variety of sources.

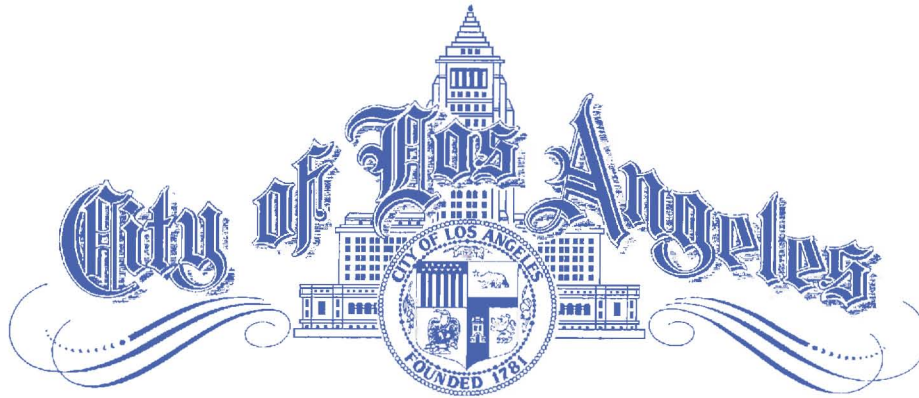
Overall, I am pleased to report that so many of our recommendations are in the process of being put into action. The progress that has already been made provides me with encouragement both of DOT's capacity to adapt to change, and for our own office to make further use of the practice of including department responses in, rather than after, our audits. Thereby, we hope to, in turn, encourage departmental collaboration to accelerate change in the City — resulting, in this case, in better transportation options for the people of Los Angeles.

Respectfully Submitted,



RON | GALPERIN
Los Angeles City Controller

Attachments



RON GALPERIN
CONTROLLER

December 19, 2014

Seleta J. Reynolds, General Manager
Department of Transportation
100 S. Main Street, 10th Floor
Los Angeles, CA 90012

Dear Ms. Reynolds:

Enclosed is the final report entitled "Proposition C: Funding the City's Transportation Priorities." A draft of this report was previously provided to your Department and comments provided by your staff at the exit conference held on October 15, 2014 were evaluated and considered. In addition, your Department's formal response and the action plan for implementing the audit recommendations is included as Appendix VII of the report.

If you have any questions or comments, please contact me at farid.saffar@lacity.org or (213) 978-7392.

Sincerely,

FARID SAFFAR, CPA
Director of Auditing

Enclosure

cc: Ana Guerrero, Chief of Staff, Office of the Mayor
Doane Liu, Deputy Mayor, Office of the Mayor
Miguel A. Santana, City Administrative Officer
Sharon Tso, Chief Legislative Analyst
Holly L. Wolcott, City Clerk
Eric R. Eisenberg, President, Board of Transportation Commissioners
Independent City Auditors



City of Los Angeles

Proposition C: Funding the City's Transportation Priorities

December 19, 2014



RON | GALPERIN
Los Angeles City Controller
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SUMMARY

Proposition C (Prop C), a Countywide initiative to finance transportation improvements in Los Angeles County, was passed by the voters in 1990 - increasing the local sales tax by one-half of one percent. The stated purposes of the tax are to improve transit service and operation, to reduce traffic congestion, to improve air quality, to efficiently operate and improve the condition of the streets and freeways utilized by public transit, and to reduce foreign fuel dependence.

In the City of Los Angeles (City), Prop C funds have been used for a variety of transportation projects such as traffic signal synchronization systems, the expansion of the City's Metro Rail system, and to widen a section of the Interstate-405 freeway. Prop C funds are received by the Los Angeles Metropolitan Transportation Authority (Metro) and a portion is disbursed to local jurisdictions in two different ways: a) as entitlement funds and b) as competitive grant awards. The Los Angeles Department of Transportation (DOT or Department) is responsible for administering and accounting for the City's Prop C funds, which were the focus of this audit.

Since the passage of Prop C, the City has received \$847 million in entitlement funds and has been awarded \$851 million in competitive transportation grants which may include Prop C funds. This audit focused on three primary activities related to Prop C funds:

- **Planning** –the strategies used to prioritize Prop C funded transportation projects;
- **Project Management** – the practices and tools used to effectively monitor Prop C funded transportation projects, to ensure they are implemented on time and within budget; and
- **Accounting** – the methods and tools used to record and track the costs of Prop C funded and other transportation projects, as well as related revenue.

Prop C Funding

A. Prop C Local Return Funds (Entitlement Funds)

The City is entitled to receive a portion of Prop C Funds, as a jurisdiction within the County of Los Angeles. These entitlement funds are called the Prop C Local Return (LR) funds, and are allocated monthly to each of the 89 jurisdictions in the County, on a per capita basis. Per Metro's eligibility guidelines, the LR funds can be used for public transit, paratransit, and related services, including the option to increase safety and road conditions by repairing and maintaining streets that are heavily used by public transit.

The LR funds that the City receives each month are used in the following ways:

- i. **Front-Funding** - Most large transportation projects rely on grant funding which is reimbursed by the Grantor. The Prop C LR funds are used to front-fund or finance the City's initial project costs incurred for grant funded projects.
- ii. **Match Amount** - Prop C LR funds are used as the local match amount, which supplements the total grant amount, as required by Grantors as a condition of the award.
- iii. **Stand-Alone** - Some Prop C LR funds are allocated to City entities (departments, bureaus, and offices) to augment their operational budgets and ongoing projects which are not grant funded, but are Prop C eligible. These are called stand-alone projects or programs.

The LR funds are deposited into the Proposition C Anti-Gridlock Transit Improvement Fund (Fund #540).

Since several funding sources and methods are used on Prop C projects, a comprehensive project management system and a grants accounting system are critical tools needed by the Department to manage the large scale transportation projects.

Project Management System

Project Managers should have access to a comprehensive project management system that interfaces with the City's financial system, which would allow them to monitor project costs, schedule milestones and deliverables, and generate status reports. It is expected that a good project management system would facilitate the efficient completion of projects and mitigate cost-overruns.

Grants Accounting System

Accounting staff that support Project Managers should have access to a grants accounting system that is fully integrated with the City's financial system, and supports multi-funded projects. The grants accounting system should also allow accounting staff to:

- monitor billing deadlines,
- generate billings for allowable reimbursements,
- calculate and distribute direct and related costs associated with those projects,

- monitor compliance with the required terms and conditions of the project award, and;
- generate reports that detail project costs (grant balance, outstanding receivables and final projects costs), in real time so the Department and policy makers can make informed decisions related to the City's overall transportation project strategy.

B. Call for Project Funding (Competitive Grant Awards)

The City also applies for funding made available through Metro's biennial Call for Projects (Call), a competitive process that distributes funds to regionally significant transportation projects. While the vast majority of the funds included in the Call are from State and Federal sources, Metro includes some of its (non-LR) Prop C funds in the total amount. For example, in 2011, the City was awarded \$38.3 million through the Call, though only \$2.3 million (6%) originated as Metro's Prop C funds.

However, since Metro requires that jurisdictions (88 cities and the County of Los Angeles) propose a local match amount in order to compete for the Call funding, the City uses its Prop C LR funds as the local match for most of the Call grants. The LR funds are also used to front-fund the initial costs incurred on all Call projects, which are subsequently reimbursed by Metro. Since the first Call in 1993, the City has been awarded a total of \$851 million in competitive funds through that process. More specifically, the City has used or will use Prop C LR funds as the match amount and to front-fund a total of 455 Call projects.

Since the LR funds are used as the local match and to front-fund the initial costs incurred for all Call projects and other competitive grants, these funds are very difficult to isolate. For the purpose of this audit, we refer to any City transportation grant project that used Prop C funds as the match or as front-funding as a "Prop C project." Reimbursements from Grantors for Call projects are deposited to the Transportations Grants Fund (Fund #655).

Transportation Grants Fund #655

While this audit was conducted to determine whether the City obtains needed Prop C revenues and whether it spends them well to implement projects in Los Angeles, it was also prompted by accounting errors discovered by DOT staff in 2011 that revealed internal problems related to managing transportation grant-funded projects. While reviewing the high cash balance in the City's Transportation Grants Fund (TGF) #655, which was used as a revolving fund to finance grant projects and included several revenue sources (including Prop C LR and General Fund monies, as well as grant

reimbursements), DOT staff found that the Department had failed to reimburse the City's General Fund over \$42 million in related costs since 1996.

Our audit confirmed that the Department has now transferred a total of \$46.4 million back to the General Fund and has implemented manual processes in an effort to prevent this from happening again. However, the need to transfer \$46.4 million back to the General Fund underscores the significant problems that can arise when accounting guidelines are unclear and when a Department lacks an adequate grant management system.

I. Overall Assessment

While the City receives approximately \$50 million of Proposition C LR funding each year to front-fund and leverage other competitive grants as well as for stand-alone projects through direct budget allocations, the Department has not developed a long-term transportation capital improvement project plan to strategically identify projects. Such a plan would support the Department's transportation vision for the City and specifically address how Prop C funds can best be used to support the completion of those projects.

The Department should reconsider its approach when applying for competitive funding through the Call for Projects, as we found that the City typically proposes the minimum local match amount required by the Grantor. Although some stakeholders indicated that this approach allows the City to submit *more* competitive grant applications and leverages funding across more potential projects, it may decrease the City's award approval rate. Our audit found that the City received less than half of the possible points in the local match category for 90% of the project applications submitted in all three years we reviewed; therefore, this practice should be reconsidered, as this could result in additional competitive awards for the City's highest priorities.

The Department also lacks a comprehensive project management system, and current grant accounting methods rely primarily on manual processes and ad-hoc reports. The absence of efficient grant accounting and project management systems hinders the Department's ability to effectively monitor, manage and report on Prop C projects. While the aforementioned \$42 million accounting oversight was the greatest impact of this, we also found that the Department cannot, in a timely manner, accurately report on the number of Prop C funded projects that have been completed, or the total costs of those projects. As a result, the Department cannot quantify the City's return on investment for the Prop C funding it has spent over the last two decades.

As the Department strives to relieve traffic congestion, it must work with City stakeholders to reconsider the strategic uses for competitive transportation grant funding and to develop a long-term transportation plan and priorities,

which would dictate the use of both Prop C LR funds and the competitive funds awarded through the Call for Projects. Further, City stakeholders must consider dedicating resources to purchase or develop the information systems needed to efficiently manage and account for the limited Prop C transportation funding.

II. Key Points

The Department does not utilize Prop C funds in an optimally strategic manner.

A. Strategically Planning for the Use of Proposition C Funds

The Department does not maintain a long-term transportation capital improvement project plan, developed to strategically identify projects, which would help determine the most effective use of the Prop C funds. Despite the fact that on average, the City receives approximately \$50 million each year in Prop C Local Return funding and receives additional varied amounts through Metro's Call (ranging from \$38 million to \$99 million over the last three Calls), it does not apply for projects that are in line with an overall plan.

While the City constitutes 39% of the population in the County, it received only 28% of the funds available through competitive awards, in the 2009, 2011 and 2013 Call for Projects.

Currently, rather than submitting grant applications for projects that are in-line with a long-term transportation capital improvement project plan, each funding cycle, the Department develops a new project list by soliciting ideas from the Office of the Mayor, Councilmember offices, and the Public Works bureaus. While soliciting stakeholder feedback is beneficial, the lack of an updated long-term transportation capital improvement project plan developed to strategically identify projects results in the Department selecting projects in an ad-hoc manner based on individual interests, rather than projects that will effectively enhance the City's transportation infrastructure. Further, this approach is reactive and does not support the proactive identification of projects that support the City's overall transportation vision.

We reviewed the City's scores on the Call for Project applications submitted in the 2009, 2011 and 2013 Calls and found that the City consistently receives its lowest scores in the local match category. The City received less than half of the points possible in the local match category for 90% of the project applications submitted in all three

years. However, the Department does not formally analyze the scores received on the rejected applications in order to increase its approval rate in the next Call. While some City stakeholders may endorse the strategy of applying for as many projects as possible, this decreases the amount of LR funds available for use as the local match, and appears to subsequently decrease the City's chance of getting a project approved. Since the priority, not the quantity, of projects should be the most critical factor when applying for competitive funding, policy makers should reconsider this approach.

Further, while population is not the only factor to consider when comparing award amounts, we found that that the City has only received an average of 28% of the total funding awarded, despite the fact that the City's population constitutes 39% of the total population for the 89 jurisdictions. However, since the City does not have a specific target amount of dollars or prioritized projects that it hopes to be awarded, it cannot measure how well it is performing in these competitive grant opportunities.

B. Proposition C Project Management

Due to the complexity of the Prop C projects, the City requires cross-functional support from several City Departments, including DOT and the Public Works bureaus – Engineering, Contract Administration, Street Services, and Street Lighting. Prop C projects also have significant budgets and should be completed in accordance with their respective schedules.

However, the Department has difficulty managing the associated projects because it does not have a comprehensive project management system which would enable it to efficiently monitor and report on the Prop C projects, and to proactively monitor project costs and project deliverables.

Due to the lack of a comprehensive project management system, the Department cannot in a timely manner, provide the complete Prop C project "universe," nor can it accurately report on the number of Prop C funded projects that have been completed or the total costs of completed projects. This prevents the Department from determining

The lack of a comprehensive project management system likely contributed to cost overruns, which totaled \$4.7 million, for nine of the 12 Prop C funded projects we reviewed.

or quantifying the City's return on investment for all of the Prop C funds it has spent over the last two decades.

Despite the lack of an available report on the universe of projects, we were able to collect individual project costs for our sample and found that nine of the 12 (75%) projects exceeded their budget. The total budgeted amount for all 12 of the projects was \$11.7 million, but the final costs were reported as \$16.4 million, \$4.7 million more than the original budget. These cost overruns were absorbed by the City, as they cannot be recovered through grant reimbursements.

C. Accounting of Proposition C Funds

The City's Prop C funding is accounted for in two special revenue funds (#540 and #655) and the General Fund. The Local Return funding is accounted for in Fund #540 to pay for project costs, whereas contractor payments are paid out of Fund #655, which is where the grant reimbursements are accounted for. However, the reimbursements for direct labor costs must be transferred back to Fund #540 and the related costs must be transferred back to the General Fund, which requires several accounting transactions. If transactions are not completed timely or correctly, issues can arise such as the Department failing to reimburse the appropriate fund.

Further, although intended to operate as a revolving fund, the Department has not been able to completely reconcile Fund #655, which accumulated a cash balance of \$205.6 million in 2009. The lack of transparency and timely reconciliations resulting in uncertain available balances within these funds hampers the City's ability to adequately plan for future transportation projects that use Prop C funds to leverage grant funding.

The lack of timely reconciliations of the two special revenue funds that account for Proposition C funds, resulted in the inability to forecast funding needs for future projects.

The City has not established clear guidelines regarding the transfer of

There may be projects for which the Department only recovers some, or none of the related costs incurred by staff who work on Prop C funded projects. However, the Department has been directed to transfer **all** of the related

reimbursements back to special revenue funds or the General Fund, when monies from these sources are used to finance grant funded projects.

costs charged to Prop C projects back to the General Fund, even if they were not reimbursed by the Grantor.

Since 2013, DOT has transferred \$62.2¹ million in grant reimbursements out of Fund #655 back to the General Fund or Fund #540. If the City had clear guidelines, these transfers would have occurred several years earlier.

The Department's grant accounting activities relies primarily on manual processes and ad-hoc reports.

The Department's current process to prepare grant billings and process grant reimbursements is manual, tedious, and time consuming. The City's current accounting system, the Financial Management System (FMS), lacks nearly all of the grant specific features needed to enable accuracy and timeliness such as the ability to: 1) track/monitor grant billing deadlines, 2) track and generate billings and reimbursement requests, 3) calculate and track/distribute direct and related costs to the various funds, and 4) generate reports that detail Prop C project costs in real-time.

At a minimum, the Department should have a system that identifies the total project cost, the labor cost (including related costs), contractor payments, the appropriated amount, the match amount, and the billing deadlines. Further, all of the City's grant receipts and the Prop C funds used to leverage these grants should be properly accounted for in an automated grants accounting system that would ensure that the City bills Grantors in a timely manner, so cash flow in the special revenue funds is steady and so that the General Fund and Fund #540 are reimbursed in a timely manner.

¹The \$62.2 million was transferred in three different transactions: 1) \$42.5 million in related costs incurred from Fiscal Years 1996 through 2011 was transferred to the General Fund in August 2013 2) \$3.8 million in related costs incurred in Fiscal Years 2012 and 2013 was transferred to the General Fund in March 2014 3) \$15.9 million in direct costs which were incurred in Fiscal Years 2010, 2011, 2012 and 2013, was transferred to Fund #540 in March 2014.

DOT does not always record financial transactions accurately or consistently.

The FMS is the City's official accounting system. As such, financial transactions should be recorded in accordance with Generally Accepted Accounting Principles. Further, it is critical that the system contain accurate information as policymakers may rely on this data for decision making.

However, no clear guidelines have been developed for posting common transactions, such as transfers of interest from one fund to another. As a result, some financial information in the FMS is inaccurate or misleading. For example, Grants Receivables reflected in FMS are overstated by \$297.8 million, and FMS reflected \$694 million in unappropriated commitments as of March 31, 2014, even though the cash balance in Fund #655 was only \$72 million.

DOT does not submit claims to Grantors in accordance with billing cycles, which deprives the Department of cash flow.

We found that DOT failed to submit timely billings for \$2.6 million in costs incurred on eight of nine projects sampled. The most immediate effect of the late billings is that the Department is deprived of cash flow and a loss of interest income to the City. Also, since Prop C funds are used to front-fund costs, the funding should be replenished as soon as possible, so the Department can continue working on other projects. Further, if the Department does not submit timely billings to Grantors, there may be a risk the funds will be de-obligated.

III. Significant Recommendations

By implementing the recommendations in the audit, the Department should be able to increase the competitiveness of grant proposals submitted to Metro, decrease transportation project cost overruns associated with inadequate project management, and improve cash flow in Funds that account for Prop C monies.

- DOT management should work with the Office of the Mayor to identify resources to implement the Strategic Capital Planning Group, as outlined in the Department's Strategic Plan, "Great Streets for Los Angeles."

- Once the group is staffed, DOT management should support the effort to create short-term and long-term transportation capital improvement project plans that would establish funding priorities for how Prop C funding will be used.
- DOT management should submit Call for Projects applications that are in line with a long-term transportation capital improvement project plan.
- DOT management should consider reducing the number of project applications submitted and instead increase the proposed local match on projects, with the goal of obtaining more funding through Metro's Call for Projects.
- In conjunction with the Public Works Bureaus, DOT management should formally evaluate the possibility of using the Uniform Project Reporting System (UPRS) to determine if it can be implemented as a permanent project management system that would meet the City's needs for managing the projects and funding sources of transportation projects.
- DOT management should convene a working group of staff that work on Prop C projects, including accountants, budget staff, and Project Managers to determine the current number of active and future Prop C funded projects to forecast the amount of funding that will be needed.
- DOT management should completely reconcile the funding in Fund #655, and once it is reconciled *and* a grants accounting system is implemented, consider consolidating Fund #540 and Fund #655.
- DOT management should work with the Controller's Office and other appropriate parties to explore the possibility of purchasing a grants accounting module.
- The Controller's Accounting Operations Division should develop clear guidelines (which are consistent with generally accepted accounting principles) for posting common transactions, such as transfers of interest from one fund to another and how to record Grants Receivables.
- DOT management should review the appropriation balances comprising the high uncommitted balances in FMS to determine those that should be canceled or modified.

IV. Review of Report

On September 26, 2014 a draft of this report was provided to DOT management. We met with DOT management and representatives at an exit conference held on October 15, 2014, and we considered their comments and additional information they provided as we finalized this report.

At the exit conference, DOT management provided documents which demonstrated that they have begun to take action to address some of the findings and recommendations in the audit report related to the need for a strategic plan, a project management system and a grants accounting system.

In September 2014, the Department issued "Great Streets for Los Angeles," a Strategic Plan for DOT. Based on this plan, the Department is expected to achieve the following by 2017:

- Create and fully staff a Strategic Capital Planning Group that will be responsible for identifying short-term and long-term project priorities.
- Implement a project management tool.
- Implement a computerized accounting system, which will digitize accounting documentation and reduce manual data entry.

In September 2014, the Department also submitted the Fiscal Year 2014-2015 Transportation Grant Fund (#655) Report to Mayor and Council. The Report discusses the Department's efforts to decrease and/or close out unnecessary appropriations and to formalize a policy to ensure indirect cost grant reimbursements are transferred back to the General Fund on a semi-annual basis.

V. DEPARTMENT RESPONSE

The Department provided their formal response on December 1, 2014 (See Appendix VII).

DOT management indicated that they generally agreed with each of the sixteen² recommendations addressed to the Department. Based on their response, we now consider: one recommendation to be Implemented (2.3); twelve as In Progress (1.1, 2.1, 2.4, 3.1, 3.2, 3.3, 4.1, 4.2, 5.1, 6.1, 7.3, and 8.1), and; three as Not Yet Implemented (1.2, 2.2 and 3.4), as these are dependent on other items that are in progress.

² The report includes a total of 18 recommendations. 16 are addressed to DOT management, and two are addressed to the Controller's Accounting Operations Division.

Several recommendations noted in this report and prior audits relative to long-term transportation planning have been contingent on LADOT receiving additional staffing. While we understand and appreciate the lack of dedicated resources (a citywide problem), the Department should consider alternative solutions to prioritize existing resources to address these issues, should the new positions not be approved or filled. Functions to be performed by the Strategic Capital Planning Group can result in gaining additional funds for the City's transportation infrastructure; therefore, these activities should be actively pursued even if the Department receives no new positions. We also present the following clarifications to LADOT's comments regarding recommendations 4.2 and 8.1.

Recommendation 4.2: DOT management should completely reconcile the funding in #655, and once it is reconciled and a grants accounting system is implemented, consider consolidating Fund #540 and Fund #655.

In its response, the Department indicated that staff are working to reconcile Fund #655, but raised concerns with consolidating Funds #540 and #655. The concerns relate to the comingling of various funding types and the complexity of managing individual project line items in Fund #540. We offer the following clarification:

- As a revolving fund, Fund #655 currently receives funding from other sources, such as Proposition A and Measure R. The Department indicated that these funds should not be comingled with the Prop C funding, which must be exclusively maintained in Fund #540 in order to meet audit requirements. However, since both Proposition A and Measure R have their own respective special revenue funds, the accounting for related transportation projects, including receipts and reimbursements, could be maintained in those Funds, thereby eliminating the need for Fund #655.
- The Department also indicated that if Fund #655 is eliminated, each of the several hundred transportation projects would need to be included in the project schedule for Fund #540 (or other special revenue funds), which would be difficult because individual project accounts need to be programmed each year based on the estimated project expenditures, which include City staff costs and construction costs. While including all of the Prop C funded projects in #540 may increase the length of the annual budget schedule, and require project managers to more diligently/accurately estimate project costs, it would also increase the transparency of the Prop C funding and the related projects. With the implementation of a grant module system and a robust project management system, project details can be readily available.

Recommendation 8.1: DOT management should establish controls to ensure billings are submitted to Grantors by billing deadlines.

In its response, the Department indicated that the recommendation suggests that it has not submitted eligible billings to Grantors before a grant closed. However, the narrative of the finding specifically refers to Grantors *billing cycles*, not the grant close-out. To clarify, the term “billing deadlines” in the recommendation refers to the billing cycles, not the grant close-out.

We would like to thank DOT management and staff for their cooperation and assistance during the audit.

BACKGROUND

20% of the total Prop C funds received by Metro are allocated to the 89 jurisdictions in the County, on a per capita basis.

These Local Return (LR) funds are the only amount of Prop C funding the City is entitled to receive.

Since it began receiving the LR through March 2014, the City has received \$847 million in LR funds. Over the last five years, receipts have averaged approximately \$50 million a year.

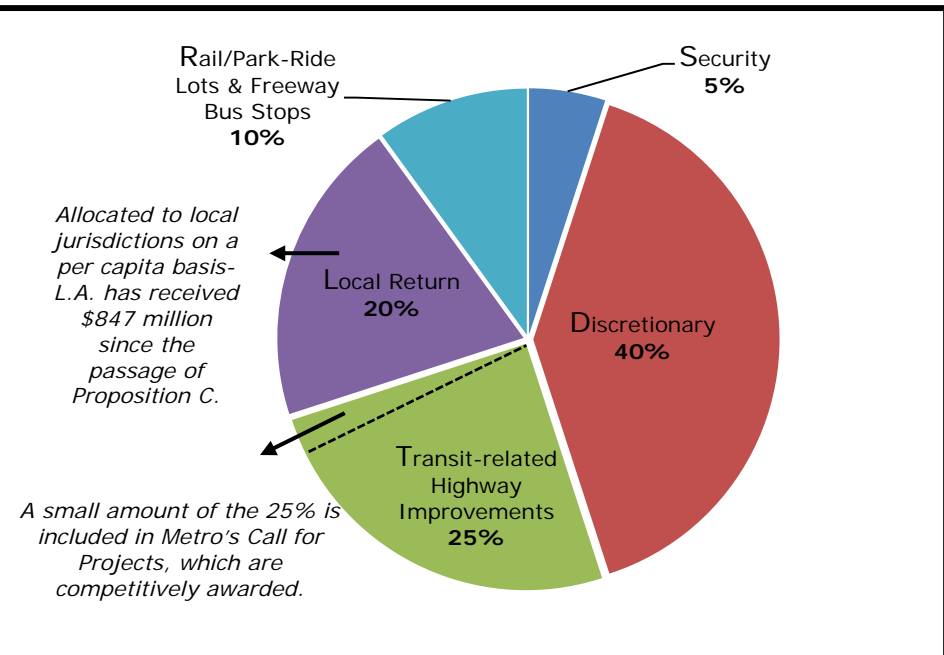
The City can apply for additional awards through Metro's biennial Call for Projects, which include a small amount of additional Prop C funds. This amount is integrated into the total funding made available through Metro's biennial Call for Projects. The City has been awarded \$851 million dollars since the first Call in 1993.

The Los Angeles Department of Transportation administers the City's Prop C funding. In this capacity, the Department leads the grant application process and provides accounting support to bureaus which work on related projects.

Proposition C (Prop C), a Countywide initiative that increased the sales tax by one-half of one percent to finance transportation improvements in Los Angeles County, was passed by the voters in 1990. Similar to Proposition A (1980) and Measure R (2008), the proceeds of each of these Countywide sales tax increases are received by Los Angeles County Metropolitan Transportation Authority (Metro), the regional transportation planning agency chartered by the State to coordinate and oversee the growth and maintenance of various modes of transportation in its respective region.

The ordinance that established Prop C specified that the revenue from the additional ½ cent sales tax will be used by Metro for projects that fall within the following categories:

Exhibit 1: Metro's Prop C Allocation by Category



The ordinance also dictates that the only amount Metro is *required* to allocate to the 89 Metro jurisdictions, which include 88 incorporated cities and the County of Los Angeles, is the 20% Local Return portion. This represents the bulk of the Prop C funds received by the City. The remaining amount can be used for Metro's own Prop C eligible projects. Since 1993, Metro has dedicated a small amount of

its Prop C funds to be integrated into the total funding that Metro has made available through its biennial Call for Projects Program (Call). The Call is a competitive award program, and Metro jurisdictions are encouraged to submit applications to fund proposed projects within their respective jurisdiction.

Therefore, the City of Los Angeles (City) receives Prop C **entitlement** funds via the Local Return program and **competitively** applies for additional funding through the Call for Projects. These funds become intertwined because the City uses the Local Return funds to leverage the additional funding that is awarded through the Call, since it requires a local match.

20% Local Return (Entitlement Funds)

Metro allocates and distributes the Local Return (LR) funds each month to the jurisdictions. In order to calculate the monthly allocations, Metro uses the total LR revenue receipts and population estimates for each jurisdiction as provided by the State of California - Department of Finance (DOF). The DOF uses the most recent Census benchmark³ data available, which is collected every ten years and makes annual adjustments based on the Housing Unit Method (HUM). Per DOF's methodology, the HUM is used to estimate total and occupied housing units, household size, household population, and group quarters population. Group quarters include college residence halls, residential treatment centers, skilled nursing facilities, group homes, military barracks, correctional facilities, and workers' dormitories. Housing units are estimated by adding new construction and annexations and subtracting demolitions, and adjusting for units lost or gained by conversions. Annual housing unit change data are supplied by local jurisdictions and the Census Bureau.

Each jurisdiction's relative population percentage is multiplied by the total LR revenue receipts, as illustrated in the Exhibit 2:

³ The United States Federal Census was most recently conducted in 2010.

EXHIBIT 2: EXAMPLE OF PROPOSITION C 20% LOCAL RETURN ALLOCATION METHODOLOGY			
Metro's Total Monthly Prop C Revenue Receipt	=		\$56,502,330
1) \$56,502,330 x 20% (LR Local Return Allocation)	=		\$11,300,466
2) <u>City of LA's population estimate (4.1 million)</u> Metro's total jurisdiction population estimate (10.5 million)	=	City of LA's population percentage estimate (39%)	
3) Total LR Revenue Receipt X City of LA's population percentage estimate	=		\$4,407,182

The City of Los Angeles' share of LR funds has averaged \$48.2 million annually over Fiscal Years (FY) 2009 through 2013 as noted below:

Exhibit 3: City of Los Angeles Local Return Revenues FY 2009 Through FY 2013				
FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
\$46,731,216	\$46,359,552	\$45,703,812	\$49,597,868	\$52,886,186

Per Metro's eligibility guidelines, the LR funds must only be used by the jurisdictions for public transit, paratransit, and related services, including the option to increase safety and road conditions by repairing and maintaining streets that are heavily used by public transit.

Call for Projects (Competitive Grant Awards)

Metro is also responsible for administering the Los Angeles County Transportation Improvement Program (TIP). A key component of the TIP is the Call for Projects program (Call), which distributes funds to regionally significant transportation projects. Every other year, Metro accepts applications for projects from jurisdictions, transit operators, and other public agencies that fall under eight modal categories.

The majority of the funding made available in the Call is from other Federal and State funding sources, including the Congestion Mitigation and Air Quality Program, Regional Improvement Program and Regional Surface Transportation Program. Metro also dedicates a small amount of Prop C funds from their 25% Countywide improvements to freeways and

**CALL FOR PROJECTS FUNDING SOURCES
2011 & 2013**

- Congestion Mitigation and Air Quality Program (CMAQ)
- Regional Improvement Program (RIP)
- Regional Surface Transportation Program (RSTP)
- Prop C 25% - Countywide improvements to freeways and highways

highways and the 10% for Commuter Rail allocations in the total Call funding. For example in 2011, the City was awarded \$38.3 million through the Call, but only \$2.3 million (6%) was Prop C funding, and the remainder was derived from the other Metro funding sources.

The Call proposals are initially reviewed by Metro staff, who rank eligible projects and present preliminary scores to Metro’s Technical Advisory Committee (TAC). The TAC is composed of thirty-two members from 17 various regional entities, ranging from the City of Los Angeles, Caltrans, the Southern California Association of Governments, and the Southern California Automobile Club. Per the TAC bylaws, members are appointed based on their technical and professional qualifications in the field of transportation planning, management and engineering.

Exhibit 4: Metro Board of Directors Member Composition
<ul style="list-style-type: none"> • The five Los Angeles County Supervisors • The Mayor of Los Angeles • Three Los Angeles Mayoral appointees (at least one of whom must be a L.A. City Councilmember) • Four City Council members from cities other than Los Angeles, but within LA County (selected by the Los Angeles County City Selection Committee) • The Governor of California appoints one non-voting member (traditionally the Director of a Caltrans District)

After the TAC’s review, the award recommendations are presented to the Metro Board of Directors, who has the final review and approval. The Board is comprised of 13 voting members, the majority of whom are elected officials.

Local Match Amounts

To apply for Call funding, applicants must propose a match amount to supplement the award that Metro provides. The total cost for an eligible project is comprised of the applicant’s share, commonly referred to as “the match” or matching amount, and the grant amount, which is commonly referred to as the participating amount.

For example, suppose the City has a project with a \$1 million budget. If Metro requires a 20% match, it will reimburse 80% or \$800,000 of the project costs and the City must fund the remaining 20% or \$200,000 as the matching share. Expenditures in excess of the approved award amount are the City’s responsibility.

Total Project Cost Formula	
Total Project cost = Grantor amount (Participating cost)	+ City's share (Match amount)

Funding and Reimbursement

Front-Funding: When the City pays the initial project expenditures and is subsequently reimbursed by the Grantor.

The Call for Projects awards are paid on a reimbursement basis, which means that the City must first incur the expenses on an eligible project, and then submit a billing to Metro for reimbursement. To meet cash flow

demands, initial expenditures are paid by the City, and referred to as “front-funds.”

Other Programs and Projects Which Utilize Prop C funding

L.A. Metropolitan Transportation/Exposition Line Construction Authority Annual Work Program (Metro/Expo)

Each year, the City is expected to complete work on the City’s Metro Rail system for those stations that fall within City limits. This is referred to as the “Metro/Expo Work Program.” Jurisdictions do not apply for this funding, but rather Metro issues work order authorizations, which direct the City to complete the work. However, DOT must front-fund the labor costs, and submit invoices to Metro, who subsequently reimburses the Department for 100% of the costs. DOT uses Prop C LR funds as the front-funds. In FY 2012-13, the City budgeted \$7.1 million for this Program.

Caltrans - Competitive

In addition to the Call, the City applies for two other competitive transportation grants that are both administered by Caltrans; the Highway Safety Improvement Program (HSIP) and the Safe Routes to School Program (Safe Routes). The Department uses Prop C LR funds as the match amount and to front-fund the costs associated with these grants, which are subsequently reimbursed by Caltrans.

- Highway Safety Improvement Program – The goal of this program is to reduce traffic fatalities and serious injuries on all public roads. As such, DOT collects accident related information and identifies locations that have experienced a high number of accidents. This data dictates which projects the City will apply for.
- Safe Routes to Schools – The primary objective of this program is to promote children’s ability to walk to school. The Los Angeles Unified School District and Neighborhood Councils provide data such as the number of accidents near schools and the rate of obesity of the children that attend the nearby school, to help inform the City’s decisions.

Caltrans - State Proposition 1B

In 2006, State voters approved the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, also known as Prop 1B, which authorized funding for several transportation projects throughout the State. DOT was allocated \$150 million for signal synchronization projects, which has been used in conjunction with Prop C LR funds to complete work on the City's Automated Traffic Safety and Control System (ATSAC).

Since all of these grants/programs use the Prop C LR allocation for the front-funding and/or the match amount, they are referred to as "Prop C projects."

Stand Alone Prop C Projects & Ongoing Activities

There are also projects that are solely funded by Prop C LR funds and are not leveraged with other funds. For example, some Prop C LR funds are directly allocated to the Bureau of Street Services to resurface streets that service public transit vehicles.

Department of Transportation

DOT has overseen the City's Prop C LR funding since the Proposition was approved. As the direct recipient of the monthly Prop C LR allocation from Metro, DOT develops the budget, coordinates the application process for the competitive transportation grants using Prop C LR as the match, manages several of the awarded projects, and serves as the centralized accounting office for processing the grant billings and reimbursements.

Prop C Program/Grant Administration

- *Prop C Budget*
Since the City receives the 20% LR allocation on a monthly basis, these funds are deposited into a special revenue fund (Fund #540). DOT staff is responsible for working with the departments which receive Prop C funding through their annual budget and with staff from the Office of the City Administrative Officer to develop the annual budget for these revenues.
- *Competitive Prop C Grant Applications*
DOT Engineers coordinate several of the grant application processes for grants that use Prop C LR funding as the match. Oftentimes, the Engineers are also responsible for completing and submitting the grant application.

- *Prop C Project Management*

When an application is awarded funding, Engineers usually manage the project. As Project Managers, they monitor the total project budget and schedule, including both the Grantor participating cost and the match amount, and coordinate with accounting staff to submit billings for reimbursement of the competitive grant award amount.

While DOT is responsible for leading and managing several of the City's

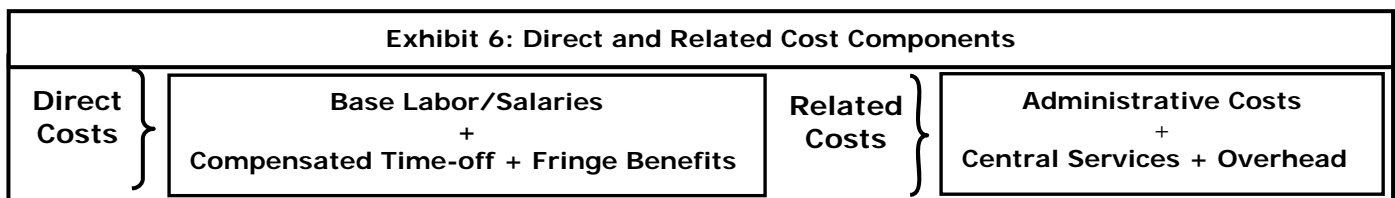
Exhibit 5 City Entities That Received Prop C LR Funding in FY 2013	
Department of Transportation	Board of Public Works
Bureau of Street Services	Department of General Services
Bureau of Engineering	Office of the City Attorney
Bureau of Contract Administration	Office of the Mayor
Bureau of Street Lighting	City Administrative Officer

transportation projects and is the direct recipient of the Prop C LR funds, many other City entities utilize the Prop C funds to complete projects or work on Prop C eligible activities. An operating department may also apply for transportation grants and use Prop C LR funds as the match amount. While the grants are submitted by DOT, staff from the department that proposes the project, is usually responsible for completing the grant application and leading the project, if awarded.

- *Prop C Accounting*

Although several departments receive and expend Prop C funds, DOT's Bureau of Accounting is responsible for collecting the cost reports from the various departments, preparing the comprehensive billings and submitting them to the Grantors. DOT accounting staff must also ensure that the reimbursements, upon receipt from Grantors, are reallocated among the special funds that may have provided front-funding for the projects.

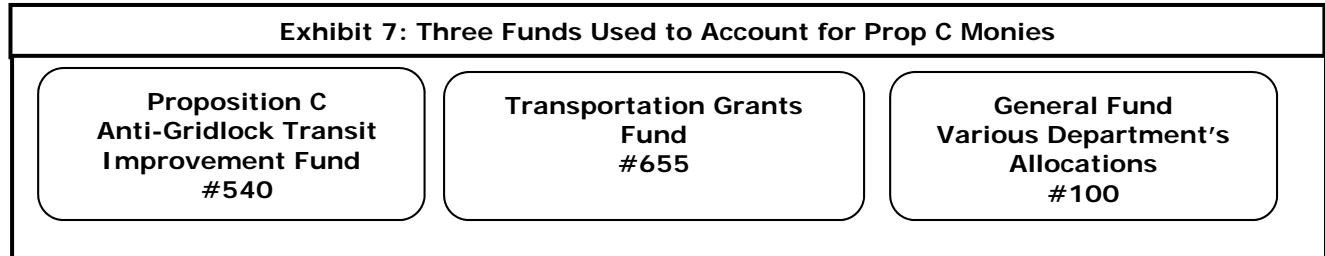
Two terms that should be defined to facilitate the understanding of the accounting of labor costs charged to Prop C projects, and will be discussed throughout this report, are direct and related costs. *Direct costs*⁴ are all of the compensation/salary costs associated with the staff who perform work on the project, whereas the *related costs* are an allocation of broader City costs, considered as indirect overhead that is applied.



⁴ The City does not include fringe benefits in the direct cost calculation in the Cost Allocation Plan. However, Prop C Grantors consider fringe benefits to be direct costs, if they are associated with direct labor positions.

Funds Used to Track Prop C Monies

In addition to the unrestricted "General Fund," the City has established over 500 special funds that are used to track and account for monies designated or restricted for specific purposes. There are three funds (two of which are special funds) that are used to account for Prop C monies:



A. ANTI-GRIDLOCK TRANSIT IMPROVEMENT FUND (#540)

In order to meet audit requirements, in 1992, the City established a special revenue fund (Fund #540, the Proposition C Anti-Gridlock Transit Improvement Fund). The primary purpose of the Fund is to receive the Prop C LR allocations each month. The City has received \$847 million in Prop C LR funds since the program's inception.

Fund #540 is included in the City's budget and is a source of funding provided to City entities' adopted operating budgets. Therefore, the largest use of the Fund's available resources are transfers to departments who have staff who work on Prop C eligible projects and activities. Fund #540 is presented as Schedule 27 of the City's annual budget, and includes the amounts each entity is appropriated for the year. Each month, 1/12 of the annual amount is transferred to the departments' general fund accounts to cover their direct salary costs.

Exhibit 8: Flow of Prop C Funding From Fund #540 to Departmental General Fund Budgets																											
<p style="text-align: center;">FISCAL YEAR 2012-13 FUND #540 BUDGET</p> <p>APPROPRIATIONS</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px;">City Administrative Officer.....</td> <td style="text-align: right; padding: 2px;">\$ 57,766</td> </tr> <tr> <td style="padding: 2px;">City Attorney.....</td> <td style="text-align: right; padding: 2px;">182,605</td> </tr> <tr> <td style="padding: 2px;">Fire.....</td> <td style="text-align: right; padding: 2px;">-</td> </tr> <tr> <td style="padding: 2px;">General Services.....</td> <td style="text-align: right; padding: 2px;">488,000</td> </tr> <tr> <td style="padding: 2px;">Mayor.....</td> <td style="text-align: right; padding: 2px;">157,000</td> </tr> <tr> <td style="padding: 2px;">Planning.....</td> <td style="text-align: right; padding: 2px;">--</td> </tr> <tr> <td style="padding: 2px;">Public Works:</td> <td></td> </tr> <tr> <td style="padding: 2px;"> Board.....</td> <td style="text-align: right; padding: 2px;">129,854</td> </tr> <tr> <td style="padding: 2px;"> Contract Administration.....</td> <td style="text-align: right; padding: 2px;">3,235,983</td> </tr> <tr> <td style="padding: 2px;"> Engineering.....</td> <td style="text-align: right; padding: 2px;">5,195,159</td> </tr> <tr> <td style="padding: 2px;"> Street Lighting.....</td> <td style="text-align: right; padding: 2px;">1,659,343</td> </tr> <tr> <td style="padding: 2px;"> Street Services.....</td> <td style="text-align: right; padding: 2px;">28,496,543</td> </tr> <tr> <td style="padding: 2px;"> Transportation.....</td> <td style="text-align: right; padding: 2px;">39,772,381</td> </tr> </table>	City Administrative Officer.....	\$ 57,766	City Attorney.....	182,605	Fire.....	-	General Services.....	488,000	Mayor.....	157,000	Planning.....	--	Public Works:		Board.....	129,854	Contract Administration.....	3,235,983	Engineering.....	5,195,159	Street Lighting.....	1,659,343	Street Services.....	28,496,543	Transportation.....	39,772,381	<p>Each Month 1/12 \$432,930 (\$5,195,159/12)</p> <div style="border: 1px solid black; border-radius: 10px; padding: 10px; width: fit-content; margin: 0 auto;"> <p>Public Works Bureau of Engineering's General Fund 100</p> </div>
City Administrative Officer.....	\$ 57,766																										
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Street Lighting.....	1,659,343																										
Street Services.....	28,496,543																										
Transportation.....	39,772,381																										

The exhibit below shows an overview of the primary sources and uses of Fund #540.

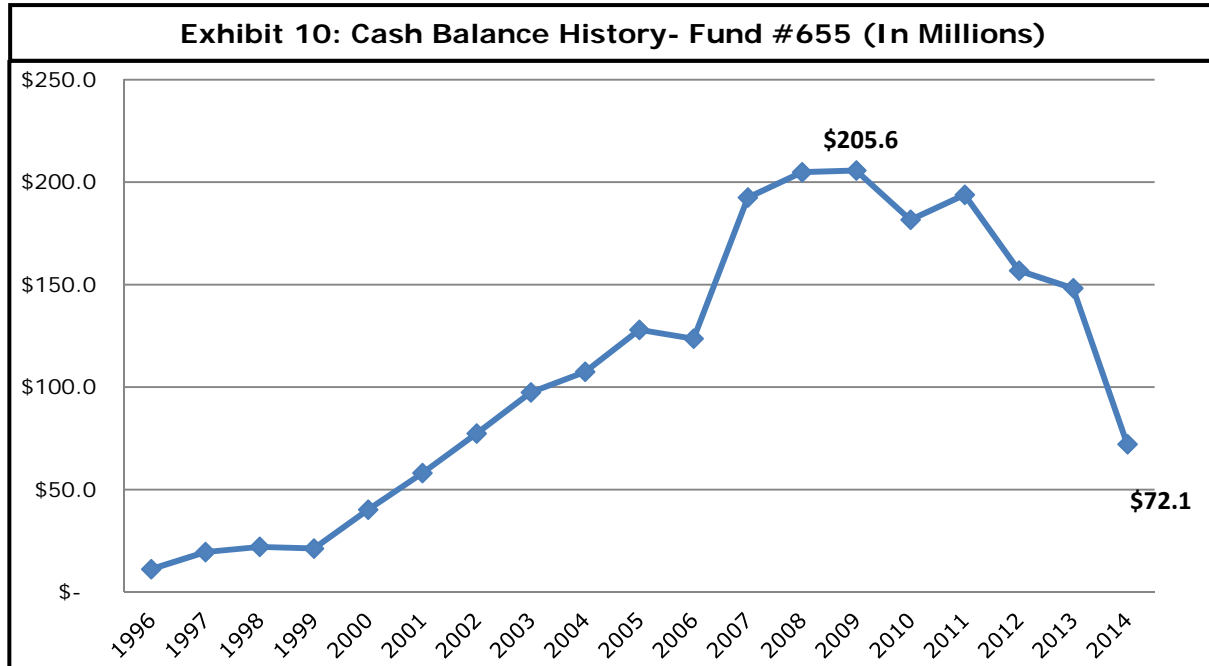
Exhibit 9: Anti-Gridlock Transit Improvement Fund #540 – Revenues & Expenditures	
Sources/Revenues	Uses/Expenditures/Intra-fund Transfers
Local Return - The monthly Local Return allocations from Metro are deposited via an electronic funds transfer (EFT) into Fund #540.	Direct Costs – Since 2012 ⁵ , each month 1/12 of the annual appropriation amount for each Department in the Prop C budget is transferred to the Departments' General Fund #100. These funds are used to pay the direct labor costs for staff that work on Prop C projects. (These direct labor costs do not include fringe benefits.)
Interest - Interest income earned from investments/ savings.	Direct costs, materials and vendors – The direct costs, as well as the materials and vendors for the <i>stand-alone</i> Prop C LR projects. Related Costs for stand-alone projects – The indirect costs incurred by staff that work in the stand-alone Prop C LR projects.
Reimbursements/Receipt of Funds	Metro Rail/Expo Reimbursements - Since the Metro/Expo projects are front-funded by #540, when the 100% reimbursement is received by DOT it is credited to #540. This only includes direct costs.

B. Transportation Grants Fund (#655)

In 1996, the City established the Transportation Grants Fund (Fund #655) by Council File motion #95-0256. While the Fund is classified as a special revenue fund, it is not included in the City budget as it is intended to function as a revolving fund. The Fund does not receive appropriations through the City’s budget process; rather it had been the repository of City cash that was front-funding transportation grant projects and for the transportation grant reimbursements. Cash in the Fund is used to pay vendors or contractors who work on the associated grant funded projects, and until 2012, it had been the source of cash funding for departmental labor expenses related to those projects.

As of March 31, 2014, Fund #655 had a cash balance of \$72 million. In prior years, the balance was as high as \$205.6 million. Cash had accumulated because the Department was not transferring the full amount of the related and direct costs back to the General Fund or to Fund #540 that had been used as front-funding, but was subsequently reimbursed by Grantors. This is discussed in detail in Finding No. 5.

⁵ Previously, DOT would transfer front-funding to #655; however, this stopped in 2012.



The exhibit below provides an overview of the primary sources and uses of Fund #655.

Exhibit 11: Transportation Grants Fund #655	
Sources/Revenues/Intra-fund Transfers	Use/Expenditures/Intra-fund Transfers
<p>Technically None- Since #655 is used as a revolving fund, it does not receive direct revenues.</p>	<p>Materials & Vendors - #655 pays the materials and vendor/contractor costs for the grant funded projects.</p>
<p>Intra-fund Transfers from #540- Prior to 2012, some of the direct costs for staff that worked on Prop C projects, as well the materials and vendor costs for related projects, were transferred to #655 to front-fund the costs as incurred.</p>	<p>Intra-fund transfer back to #540- To reimburse the direct costs for staff that work on Prop C projects.</p>
	<p>Intra-fund transfer back to General Fund #100- To reimburse the related costs attributable to Prop C projects that are initially absorbed by the General Fund.</p>
<p>Reimbursements/Receipt of Funds</p>	<p>Grant Reimbursements – The total amount of all reimbursements from Grantors are temporarily credited to #655. Note: These are the reimbursements from the Metro Call for Projects and Caltrans projects, not the Metro/Expo Rail projects.</p>

In prior years, Prop C LR funds and other grant funds were transferred into Fund #655 to pay vendors or contractors when a grant was awarded or when the project was expected to begin. While the exact amount of Prop C funds in Fund #655 is unknown, according to DOT, the majority of the current cash in #655 is Prop C funds.

C. General Fund

Some of the direct costs and related costs associated with staff salaries who work on Prop C eligible projects/activities are paid directly from the General Fund, such as fringe benefits and indirect overhead. Once the reimbursement for those costs is received from the Grantor, the associated related costs should be transferred back to the General Fund.

Exhibit 12: Various Departments' General Funds (Fund #100)	
Expenditures	Reimbursements/Intra-fund Transfers
Related costs- Some of the related costs associated with staff salaries, who work on Prop C eligible projects, or activities are paid out of various entities' allocation of the General Fund.	Intra-Fund Transfers from #655 for Related Costs- Some of the related costs which include central services, overhead and administrative services are paid out of the General Fund. Most of these costs should be recovered through the grant reimbursements. Once the reimbursements are received from the Grantors, the amounts <u>should be</u> transferred back to the General Fund.

Audit Objectives

This audit was conducted to assess whether or not the City is obtaining needed Proposition C revenues, and if it is spending them well to implement public transit projects in Los Angeles. The audit objectives were as follows:

- A. Assess whether the City applies for and obtains all the Proposition C funds available from Metro, including Local Return funds, Discretionary funds, Freeways and Highways funds, etc.
- B. Assess whether some project proposals submitted by the City are rejected by Metro, and if so, determine if the reasons for rejection are adequately evaluated and incorporated in DOT's strategic planning.
- C. Assess the source for population data used by Metro in its allocation formula for the Local Return Program, and determine if it is the best source, and how often it is updated.
- D. Evaluate the City's strategic prioritization and planning process in place for identifying, selecting, and prioritizing the use of Proposition C funds.

- E. Evaluate whether or not projects are properly implemented to make efficient and effective use of Proposition C funds.
- F. Evaluate whether or not the City is claiming all eligible costs, and if efficient and effective systems are in place to accumulate these costs.
- G. Assess whether or not Fund #540 is reimbursing the General Fund and other funds in a timely manner for costs incurred by the funds, and if the liabilities to these funds are properly recorded.
- H. Determine if the City has adequately resolved/corrected any issues raised by Metro's audits.

Benchmarking

We obtained the funding amounts awarded in the 2009, 2011 and 2013 Call for Projects, and compared the number of projects awarded to each jurisdiction, the amount of funding awarded to each jurisdiction, and the population percentage of each local jurisdiction that was awarded funding.

For each of the three funding cycles, we found that the City was awarded the most amount of money for the most number of projects. This is not surprising since the City has, by far, the largest population of all the member jurisdictions eligible for funding. Overall, the City was generally awarded similar proportions of both the total number of projects and amount of funding. For example, the City was awarded an average of 25% of the total number of projects and 28% of the total funding available for the three Call cycles.

Given that the City has the largest population of all eligible jurisdictions, we reviewed the percentage of funding received by each jurisdiction that was awarded funding, in comparison to their relative population percentage, and found that for all three Call cycles⁶, the City ranked nearly last. In 2009, the City ranked 27th out of 33 cities, 27th out of 29 in 2011, and 36th out of 39 in 2013. While the comparative population to award ratio may give the appearance that the City is not receiving its "fair share," there may be other factors that contribute to the allocation of the competitive Call for Project funding throughout the County, such as regional significance and need.

⁶ We used the most recently available population data for each of the three years reviewed.

Additional information regarding the benchmarking results is discussed in Finding No. 2, and comparative data for all cities that received funding awards from the 2009, 2011 and 2013 Call for Projects can be found in Appendix IV and Appendix V.

Findings & Recommendations

Section I: Strategically Planning for the Use of Proposition C Funds

While the City is entitled to and receives its full share of the 20% LR funds, averaging almost \$50 million annually, it can also competitively apply for a small amount of additional Prop C funds, which is integrated into the total funding made available through Metro's biennial Call for Projects. Although the amount of total funding in each Call cycle fluctuates, it is usually a significant amount which can be used on large scale capital transportation projects. For example, in 2009, 2011 and 2013, the total amount of funding made available by Metro in the Call was \$338 million, \$124 million and \$199 million, respectively.

Since the Call (and other competitive grants) requires a City match and awards are scored on that basis, and since the LR funds are used as a match to leverage the amounts awarded, the City should be strategic in its approach when identifying projects to utilize LR funds, and when submitting Call applications to Metro.

Finding No. 1: The Department does not utilize Prop C funds in an optimally strategic manner.

The Department does not maintain a long-term transportation capital improvement project plan, developed to strategically identify prioritized projects. As a result, it cannot be assured that projects will most effectively meet the City's transportation needs and priorities.

Despite the fact that the City receives an average of approximately \$50 million each year in Prop C Local Return funding, and receives additional varied amounts through the Call (ranging from \$38 million to \$99 million over the last three Calls), the Department does not utilize or administer these funds in a strategic manner. DOT has not updated its transportation strategic plan or a long-term transportation capital improvement project plan, developed to strategically identify projects, which would help ensure these funds are used most effectively. Such a plan should support the Department's transportation vision for the City, and specifically address how Prop C funds should be utilized.

Currently, rather than submitting grant applications for projects that support a strategic plan, the Department develops a new project list each funding cycle

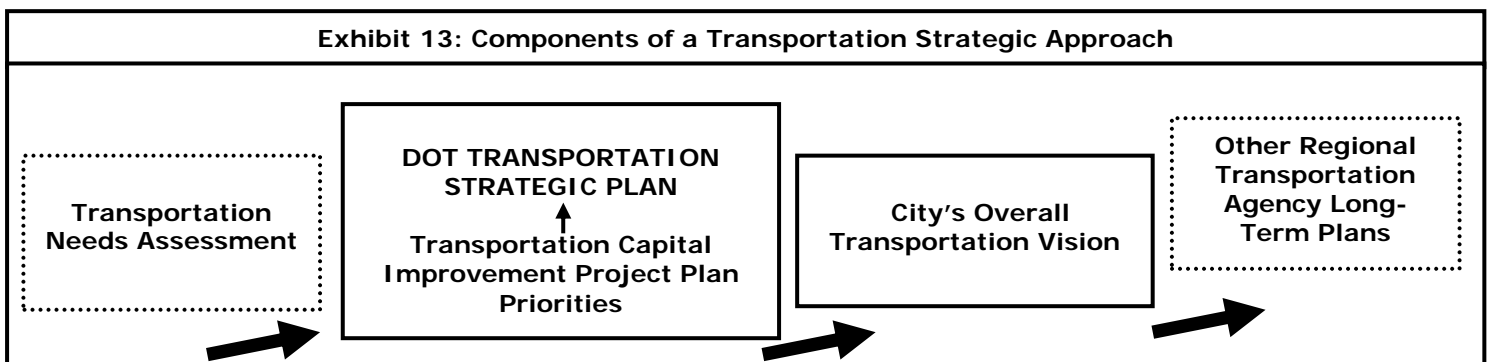
by soliciting ideas from the Office of the Mayor, Councilmember offices, and the Public Works bureaus. While soliciting stakeholder feedback is beneficial, the lack of a formal and strategic list for funding priorities results in the Department selecting projects in an ad-hoc manner, based on individual interests, rather than on projects that will effectively enhance the City’s transportation infrastructure. Rather than proactively identifying projects that support the City’s transportation vision, this approach is reactive. The process would be enhanced if the Department could refer to approved formal documents with transportation priorities and projects, such as a long-term transportation capital improvement project plan, developed to strategically identify projects.

Transportation Strategic Plan

In order to ensure that employees and stakeholders are working toward common goals, organizations need to develop a strategic plan, a document used to communicate the organization’s goals and the actions needed to achieve them. Good strategic plans also identify organizational priorities which dictate where limited resources should be focused.⁷ Priorities and projects are usually based on needs which can be identified through a needs assessment.

Capital Improvement Project Priorities

In the case of a public transportation agency, such as DOT, which is responsible for large transportation capital projects, a strategic plan is especially beneficial because it could include prioritized transportation capital improvement projects. The plan should include all of the projects that bolster or enhance the Department’s/City’s overall transportation vision. Other transportation agencies in the region, such as Metro and the Southern California Association of Governments (SCAG) have short-term and long-range plans. For example, Metro recently released a draft of its short-term transportation plan, which is a ten-year plan that feeds into its long-term goals outlined in its 2009 plan that includes its 30-year vision.



⁷ Balance Scorecard Institute, Strategy Management Group

The need for a strategic transportation plan was previously identified by a Management Review of DOT completed by KH Consulting on behalf of the Controller's Office in 2012. The Review recommended that DOT should have a:

*"formal organizational unit focused on innovative transportation policies and legislative initiatives that are then reflected in a **transportation strategic plan with 5 and 20 year horizons.** These policies and plans should help define LADOT's capital project and grant priorities, as well as effective initiatives to improve safety and reduce traffic risks."*

The Department indicated that it would like to implement an Advanced Planning Group, based on the recommendation made in the 2012 Management Review. However, the resources to implement a group have only recently been identified. The Fiscal Year 2014-15 budget includes \$400,000 for Transportation Advance Planning.

Subsequent to our fieldwork, in September 2014, the Department issued "Great Streets for Los Angeles," a strategic plan for DOT which includes goals, and the strategies that will be used to achieve the goals by 2017. One of the goals is to *"Fully staff and maintain a Strategic Capital Planning Group."* The Plan also directs the Department to *"Identify short-term and long-term priority projects."*

The strategic plan links to and directly supports the City's "Mobility Element 2035," which is an element of the City's General Plan that focuses on transportation⁸. The Department of City Planning and DOT have been working together to develop the Mobility Element, which is expected to "lay the policy foundation for the City to plan, design and operate multiple modes and use."

Although DOT now has a strategic plan, until it has a long-term transportation capital improvement project plan developed to strategically identify projects, the Department cannot be assured that these projects will most effectively meet the City's transportation needs, priorities, and long-range vision.

⁸ It should be noted that the City's entire General Plan is not being updated- only the Mobility Element.

Recommendations

- 1.1 DOT management should work with the Office of the Mayor to identify resources to implement the Strategic Capital Planning Group, as outlined in the Department’s Strategic Plan, “Great Streets for Los Angeles.”**

- 1.2 Once the group is staffed, DOT management should support the effort to create short-term and long-term transportation capital improvement project plans that would establish funding priorities for how Prop C funding will be used.**

Finding No. 2: The City’s practice of selecting projects in an ad-hoc manner, rather than prioritized projects, and usually proposing the minimum amount in the local match category for the Call for Project grant proposals, may be decreasing the City’s award approval rate. While the City constitutes 39% of the population in the County, it received only 28% of the funds available through competitive awards, in the 2009, 2011 and 2013 Call for Projects.

Further, since the City does not formally assess its performance in these competitive grant awards, it may not be maximizing results. At a minimum, the City should consider prior year results, as a baseline, and work to meet or exceed these results. If the City improved the competitiveness of the grant proposals submitted to Metro, it would likely increase its share of available Metro funding.

As the administrator of the City’s Prop C funding, one of DOT’s roles is to coordinate the Citywide project identification and application process for the Call. The following is the City’s performance in the Call for Projects since its inception in 1993.⁹

Exhibit 14: City of Los Angeles Performance in the Call for Projects 1993 through 2013 (In Millions)						
Call Year	Total Funds Available in the Call	# of Applications Submitted by the City	# of City of LA Projects Awarded	% of Projects Awarded	City of LA Awarded Amount	City’s \$ Share (Compared to the other 88 Metro jurisdictions)
1993	\$455,000	153	43	28%	\$49,426	11%
1995	\$308,000	113	56	50%	\$108,081	35%
1997	\$405,383	113	40	35%	\$50,498	12%
1999	\$297,489	164	79	48%	\$110,898	37%
2000	\$120,708	61	19	31%	\$40,426	33%
2001	\$331,851	138	79	57%	\$131,550	40%
2006	\$86,296	-	-	-	\$46,771	54%
2007	\$449,939	146	63	43%	\$130,124	29%
2009	\$337,551	122	43	35%	\$99,047	29%
2011	\$123,516	49	16	33%	\$38,294	31%
2013	\$199,390	57	17	30%	\$46,344	23%
Totals/ Averages	\$3,115,123	1,116	455	41%	\$851,459	27%

⁹ The amounts for 1993 through 2007 were provided by DOT staff, whereas the 2009, 2011 and 2013 amounts are based on the initially awarded amounts as listed on Metro’s website.

DOT begins the process by asking for potential projects from the Mayor’s Office and all fifteen Council Offices. DOT staff collects project ideas which are then reviewed by an “Interdepartmental Task Force” comprised of staff from departments who work on transportation projects, such as the Bureau of Engineering and Street Services, as well as staff from Council Offices, the Mayor, and the CAO. This group is responsible for determining which projects the City will submit to Metro to compete for funds through the Call. The list is further broken down into the eight modal categories that Metro uses to classify projects, and these specific projects are reviewed in more detail by sub-committees. The sub-committees are comprised of City departmental staff with technical expertise that focus on one of the eight modal categories.

Once the project list is narrowed, a “Call for Projects” nomination form, which details the cost and benefits of the project, must be completed by the office that originally proposed the project. When these are received, staff from operating departments (including DOT, BOE and BSS) are assigned to develop the engineering plans and the corresponding cost estimate for the project, to determine its feasibility. Once the feasible projects have been identified, sub-committees meet again to review and discuss them. During this review, sub-committee members apply Metro’s criteria to the potential projects and score them internally. Based on this analysis, the projects with the highest internal scores are selected for submission. The grant applications are completed by staff, specifically by the Engineers who will likely manage the project if funding is awarded. Once a list of project applications has been compiled, it is submitted to City Council for formal approval prior to

Exhibit 15: Metro’s Call for Project Modal Categories	
Regional Surface Transportation Improvements (RSTI)	Capital improvement projects to rehabilitate, reconstruct, or resurface regionally significant arterial highways.
Goods Movements Improvement’s (GMI)	For improvements on high truck volume routes, truck routes, and major freight corridors to enhance access to and from rail yards, ports, etc.
Signal Synchronization & Bus Speed Improvements (SSBSI)	Traffic signal synchronization; improve traffic control and monitoring systems.
Transportation Demand Management (TDM)	Technology and/or innovation based strategies, Ridesharing Incentive Programs, Parking Management Programs, Transportation Facilities, Commuter Service Centers and New and Unique Demo Projects.
Bikeways Improvement (BI)	Improve access and mobility through bike to transit, bikeway network and bike parking lanes.
Pedestrian Improvements (PI)	Improvements that promote walking as a viable mode of transportation.
Transit Capital (TC)	Improvement of transit stations, centers, transit vehicles etc.
Transportation Enhancement Activities (TEA)	Acquisition of scenic or historic sites, highway programs and projects that reduce vehicle caused wildlife mortality.

submission to the Grantor. Council may also add or change projects at its discretion.

After Metro has selected the projects for award, it releases the “Rainbow Report” which lists the scores for each project submitted by every jurisdiction and the award amounts for the selected projects. The report also details the score awarded in each category. For example:

Exhibit 16: Call for Projects Scoring Categories					
Points Possible					
35	35	10	10	10	Total Score
Regional Significance & Intermodal Integration	Project Need & Benefit to Transit System	Local Match	Cost Effectiveness	Land Use & Environmental Compatibility	
Points Awarded					
27	25	10	10	9	81

DOT staff indicated that they meet with Metro to discuss the reasons why an application was rejected; however, they were unable to provide formal documentation of this process, including how they consider potential changes for future Calls. Staff also indicated that there have also been instances in which Council Office staff or Councilmembers themselves have called Metro to understand why one of their proposed projects was rejected.

Score Analysis

Though Metro makes the quantitative scoring information available, the Department does not formally analyze the scores received on the City applications to determine how it could improve during the next funding cycle to potentially increase its approval rate and amount of funds awarded. We reviewed the applications submitted by the City in the 2009, 2011 and 2013 Call cycles, as well as the Rainbow Reports for these years to analyze the City's scores and found the following:

Exhibit 17: City of LA Call for Project- Projects Submitted Versus Awarded						
	2009		2011		2013	
Projects Submitted	122		49		57	
Projects Awarded	43	35%	16	33%	17	30%
# of Projects not Awarded	79	65%	33	67%	40	70%

Exhibit 18 below shows that, by far, the City receives its lowest scores in the local match category.

Exhibit 18: 2009, 2011 and 2013 Call Applications Not Awarded- Categories That Received Less Than 50% of Points Possible						
Score Category	2009		2011		2013	
	#	%	#	%	#	%
Regional Significance & Intermodal Integration	17	22%	8	24%	2	5%
Project Need & Benefit to Transit System	19	24%	11	33%	3	8%
Local Match	71	90%	28	85%	39	98%
Cost Effectiveness	18	23%	15	45%	8	20%
Land Use & Environmental Compatibility	11	14%	8	24%	2	5%

For example, in 2013 the City received less than 50% of the points possible in the local match category for 98% of the projects it applied for, but was not awarded. Further analysis found that the City proposed the minimum match approximately 65% of the time. We also noted that the Department’s approval rate for projects in which it proposes more than the minimum match is 60% higher than when it proposes only the minimum match.

Our analyses indicate that the Department should consider increasing the amount of match funding proposed in project applications, as this may increase the City’s approval rate. For example, if a project requires a 20% match, it would likely get additional points for proposing a 30% match. However, the City does not take this approach; rather, it submits as many applications as possible for the total amount of funding available. For example, if Metro announces that \$300 million will be available to all jurisdictions Countywide, the City will submit applications for projects that total approximately \$300 million in requested funding, even though it is highly unlikely that Metro would award the City the entire amount of funding available.

As discussed in Finding No. 1, the primary reason the City submits project applications in an ad-hoc manner may be due to the lack of a strategic plan for the use of Prop C funding, which is most often used as a match for these competitive awards. Without a plan, the Department cannot refer to any prioritized list or criteria when a stakeholder, such as a Councilmember submits a request. This prevents the Department from focusing on prioritized applications; rather, it has to develop and submit a full application for every

project, which is time consuming. Transportation Engineers spend a significant amount of time completing the grant applications. Each application requires staff to develop cost estimates, collect and assess quantitative information demonstrating the benefits of the project, and write detailed narratives. A more selective application process would also allow staff to focus their attention on fewer applications, which could potentially improve their quality and competitiveness. Developing applications also takes their focus off the projects they are currently managing, potentially impacting their ability to effectively oversee those projects (see Finding No. 3). Further, since the Department does not analyze the scores received on the applications, there is a risk that it has missed opportunities to increase the competitiveness of preferred projects.

According to the Department and the CAO, the City's long-standing strategy has been to apply for the total amount of funding available in the Call. However, some managers within the Department agreed that it may be better to submit fewer applications, and increase the match amount for the higher prioritized projects. Our analysis supports the need to reconsider this approach.

Modal Category Analysis

We also reviewed the City's performance in each modal category for the 2009, 2011 and 2013 Calls. (Note that Metro added an eighth category, "Goods Movement" in 2011.)

**Exhibit 19: City of Los Angeles Call for Project Performance
in 2009, 2011 and 2013 by Modal Category**

Modal Category	# of Projects Applied	# of Projects Approved	% of Projects Approved	\$ Amount Applied	\$ Amount Approved	% of \$ Amount Approved
2009						
Regional Surface Transportation Improvements	37	9	24.3%	\$255,834,750	\$44,976,684	17.6%
Signal Synchronization & Bus Speed Improvements	3	2	66.7%	\$6,400,000	\$5,732,000	89.6%
Transportation Demand Management	15	4	26.7%	\$17,973,148	\$3,931,822	21.9%
Bikeway Improvements	8	5	62.5%	\$33,477,040	\$11,501,658	34.4%
Pedestrian Improvements	30	13	43.3%	\$25,777,736	\$18,252,997	70.8%
Transit Capital	14	4	28.6%	\$35,959,867	\$10,235,626	28.5%
Transportation Enhancement Activities	15	6	40.0%	\$14,905,460	\$4,417,090	29.6%
Totals	122	43	35.2%	\$390,328,001	\$99,047,877	25.4%
2011						
Regional Surface Transportation Improvements	7	1	14.3%	\$22,503,250	\$1,208,311	5.4%
Goods Movement	6	2	33.3%	\$29,167,418	\$17,320,744	59.4%
Signal Synchronization & Bus Speed Improvements	1	1	100.0%	\$8,000,000	\$2,299,456	28.7%
Transportation Demand Management	6	3	50.0%	\$3,890,000	\$2,351,380	60.4%
Bikeway Improvements	7	3	42.9%	\$18,097,428	\$5,617,182	31.0%
Pedestrian Improvements	10	4	40.0%	\$15,300,040	\$7,118,134	46.5%
Transit Capital	7	1	14.3%	\$12,560,000	\$1,825,809	14.5%
Transportation Enhancement Activities	5	1	20.0%	\$3,671,000	\$553,463	15.1%
Totals	49	16	32.7%	\$113,189,136	\$38,294,479	33.8%
2013						
Regional Surface Transportation Improvements	10	4	40.0%	\$44,649,739	\$18,389,743	41.2%
Goods Movement	7	2	28.6%	\$22,153,687	\$9,014,865	40.7%
Signal Synchronization & Bus Speed Improvements	0	0	0%	\$0	\$0	0%
Transportation Demand Management	3	2	66.7%	\$2,352,307	\$1,241,782	52.8%
Bikeway Improvements	12	1	8.3%	\$30,131,509	\$2,238,800	7.4%
Pedestrian Improvements	12	4	33.3%	\$18,759,396	\$6,273,573	33.4%
Transit Capital	7	2	28.6%	\$20,441,557	\$7,602,690	37.2%
Transportation Enhancement Activities	6	2	33.3%	\$5,674,920	\$1,582,600	27.9%
Totals	57	17	29.8%	\$144,163,115	\$46,344,053	32.1%

This analysis shows that the City had the lowest approval rates under the Regional Surface Transportation Improvement (RSTI) category, with 24.3% in 2009 and 14.3% in 2011, and 8.3% under the Bikeway Improvement category in 2013. Most notably, the analysis highlights the fact that the City did not receive any funding under the Signal Synchronization category in 2013, because it did not submit any related projects. The Department indicated that there may be categories in which the City submits only a few applications because the related projects may not be needed or in demand, which is the case for the Signal Synchronization category. Staff explained that the City’s Automated Traffic Surveillance and Control (ATSAC) System has been completed. However, as there may be a need to update or improve the system, this assumption could be formally confirmed through a transportation needs assessment.

Benchmarking

We obtained the funding amounts awarded in the 2009, 2011 and 2013 Call for Projects, and compared:

- the number of projects awarded to each jurisdiction,
- the amount of funding awarded to each jurisdiction, and
- the population percentage of each jurisdiction that was awarded funding within the County.

We found that the City was awarded the most amount of money, for the most number of projects in each of the three cycles. This is not surprising since the City has the largest population of all member jurisdictions. It is nearly four times as high as the second most populous jurisdiction, the unincorporated area of the County of Los Angeles.

Exhibit 20: 2009, 2011 and 2013 Call for Project Awards (By Project and Dollar Amount)						
	Total # of Projects Awarded through the Call	# of Projects Awarded to the City of LA	% of Projects Awarded to the City of LA	Total \$ Amount Awarded through the Call	\$'s Awarded to the City of LA	% of \$'s Awarded to the City of LA
2009	135	43	31.85%	\$337,551,174	\$99,047,877	29.34%
2011	71	16	22.54%	\$123,516,002	\$38,294,479	31.00%
2013	96	17	17.71%	\$199,390,000	\$46,344,053	23.24%
Totals/Avg. for all 3 Calls	302	76	25.17%	\$660,457,176	\$183,686,409	27.81%

When we reviewed the percentages for both projects and funding, we found that overall, the City is generally awarded similar proportions of both the total number of projects awarded and amount of funding. For example, the City was awarded an average of 25% of the total number of projects and 28% of the total funding available for the three Call cycles. This indicates that, in general, the funding is spread among an equal number of projects, and there is not necessarily a concentration of funding on large projects. Or, vice versa the City does not appear to receive less funding for more, small scale projects.

Population Consideration

Given that the City has the largest population of all eligible jurisdictions within the County, we also wanted to consider the percentage of funding received by each city that was awarded funding, in comparison to their relative population percentage. We found that for all three years, the City ranked nearly last and the City received less funding than its population percentage. For example, in 2009, the City was awarded \$99 million, which represented 29.3% of the total dollar amount awarded of \$337.6 million.

Since 39.1% of the County's population resided in the City, the dollars awarded versus population ratio for 2009 was -25%. *(Positive ratios mean that the City was awarded more than their proportional share of dollars, in relation to their population, while negative ratios mean that the City was awarded less than their proportional share of dollars.)*

Exhibit 21: City of Los Angeles 2009, 2011 and 2013 Call for Projects Ranking					
	Amount Awarded	% of Total Awarded	% of County Population	\$ vs. Population Ratio	Ranking
2009	\$ 99,047,877	29.3%	39.1%	-25.0%	27 out of 33
2011	\$38,294,479	31.0%	39.2%	-20.9%	27 out of 29
2013	\$46,344,053	23.2%	38.8%	-40.1%	36 out of 39

Source: Metro 's website, Call for Projects 2009, 2011, and 2013 Award Documents http://www.metro.net/projects/call_projects/

The City's ratio was -21% in 2011 and -40% for 2013, which means that for all three funding cycles, it received less in comparison to their population percentage and ranked nearly last, when compared against the other cities that were awarded funding. For example, in 2013, 35 of the 39 cities that received funding had a higher dollar amount awarded versus population ratio than the City.

While the population ratio results may give the appearance that the City is not receiving its “fair share,” and underscores the City’s need to improve its strategy by increasing the local match amount; there may be other factors that contribute to the allocation of the competitive Call for Project funding throughout the County. For example, the City of Industry had the best population/funding ratio in each of the three calls: the population is only .01% with approximately of 437 residents, but it was awarded more than \$6 million each cycle. This may be due to the fact that several large businesses are located in that City, which is also bordered by four major freeways and two transcontinental railroads run through it directly to the Ports of LA and Harbor. When considering those additional factors, it is understandable that Metro awards significant funding to the City of Industry to facilitate and improve the movement of goods.

If a population comparison is not the best measure of the City’s success in a competitive grant program, at a minimum the City should develop a targeted dollar amount or the number of projects it hopes to be awarded. This would allow the City to measure how well it is performing in these competitive grant opportunities.

The details of the benchmarking results for all cities that received funding in the 2009, 2011 and 2013 Call for Projects are detailed in Appendix IV.

Recommendations

DOT management should:

- 2.1 Submit Call for Projects applications that are in line with a long-term transportation capital improvement project plan.**
- 2.2 Formally and quantitatively analyze the scores received on the Call for Projects applications to determine which categories need improvement for future funding opportunities.**
- 2.3 Consider reducing the number of project applications submitted and instead increase the proposed local match on projects, with the goal of obtaining more funding through Metro’s Call for Projects.**
- 2.4 Consider prior year award results (both the dollar amount and the number of projects), as a baseline, and work to meet or exceed these results in future Call for Projects.**

Section II: Proposition C Project Management

Finding No. 3: The lack of a comprehensive project management system likely contributed to cost overruns, which totaled \$4.7 million, for nine of the 12 Prop C funded projects we reviewed.

The lack of a comprehensive project management system inhibits the Department's ability to generate a complete Prop C funding project list, to produce individual project status reports, and to proactively monitor project costs and project deliverables. For example, the Department cannot accurately report the number of Prop C funded projects that have been completed or the total costs of completed projects, which tend to incur cost overruns.

Due to the complexity of the Prop C projects, the City requires cross-functional support from several City entities, including DOT and the Public Works bureaus - Engineering, Contract Administration, Street Services, and Street Lighting. Prop C projects also have significant budgets and should be completed in accordance with their schedule to mitigate transportation related inconveniences, such as traffic detours.

We found that the Department has difficulty managing the associated projects because it does not have a comprehensive project management system which would enable it to efficiently monitor and report on the Prop C projects. For example, the Department cannot in a timely manner, provide the complete Prop C project "universe," accurately report on the number of Prop C funded projects that have been completed, or the total costs of completed projects. This prevents the Department from determining or quantifying the City's return on investment for all of the Prop C funding it has spent over the last two decades. Further, the Department was unable to provide a current list of active projects with their respective funding sources. Rather, in order to obtain detailed project reports, this information must be collected from accounting and project management staff on a project-by-project basis.

Project Management

Each project includes three cost categories: design, construction management, and construction. We attempted to review a sample of 12 completed projects that used Prop C funds as the local match or as front-funding. We requested the awarding document, project billing files with project work order numbers, and the final project costs to compare the cost

estimates to the total project costs. We found issues with the Department’s ability to generate individual project cost reports, as well as a comprehensive report of all Prop C funded projects, which would help staff manage project costs.

Cost Overruns

Since project costs are not readily available in a comprehensive report, we worked with the Department to collect the project budget per the initial contract and the final reported project costs for each project. We found that nine of the 12 (75%) projects exceeded the budgeted amounts. The total budgeted amount for all 12 of the projects was \$11.7 million, but the final costs were reported as \$16.4 million, \$4.7 million more than the original budget. Cost overruns must be absorbed by the City, as they cannot be recovered through grant reimbursements.

Exhibit 22: Sample of Prop C Project Costs - Budget Compared to Final

Project Title	Grantor	Budget per Contract	Final Reported Costs	Difference	Comments	
1	LA River Bike Path Phase 1c	Caltrans	\$3,143,803	\$3,172,938*	(\$29,135)	*Incomplete costs- Does not include DOT's project management oversight costs because staff used generic Prop C work order number.
2	Skirball Widening	Metro	\$2,547,000	\$2,793,264	(\$246,264)	
3	ATSAC Palisades (Design only)	Metro	\$626,100	\$1,442,989	(\$816,889)	
4	ATSAC Canoga Park (Design only)	Metro	\$1,429,320	\$3,845,738	(\$2,416,418)	
5	ATSAC Harbor Gateway II (Design only)	Metro	\$992,100	\$2,503,291	(\$1,511,191)	
6	11th & Slauson	Caltrans	\$211,494	\$248,377	(\$36,883)	
7	Crenshaw and Jefferson	Caltrans	\$99,112	\$127,959**	(\$28,847)	**Audit also identified \$1,088,074 initially charged to an associated work order in error.
8	Lankersheim & Valerio	Caltrans	\$240,656	\$232,023	\$8,632	
9	Dearborn and Reseda	Caltrans	\$181,297	\$195,026	(\$13,729)	
10	6 Intersections	Caltrans	\$802,000	\$999,159	(\$197,159)	
11	Express Lanes	Metro (Metro Rail)	\$710,101	\$261,250	\$448,851	The schedule and scope is dictated by Metro, since they are MetroRail projects. The City performs some of the work for parts that are physically located within City boundaries. Prop C funds front-fund the costs, which are reimbursed 100% by Metro.
12	Orange Line Extension	Metro (Metro Rail)	\$758,717	\$631,863	\$126,854	
Totals			\$11,741,600	\$16,453,878	(\$4,712,179)	

- One project, the LA River Bike Path Phase 1c, had a budget of \$3,143,803 but the “final” reported costs totaled \$3,172,938. However, the actual final costs are more than this, but cannot be determined because the Project Manager explained that DOT Project Managers inadvertently charged their time to a generic Prop C work order number, and not a work order specific to the project. Since these charges were combined, the total actual project costs cannot be specifically determined, and could be significantly higher.
- One of the three Automated Traffic Surveillance and Control (ATSAC) System projects we reviewed had an initial project budget of \$1,429,320 for the design phase but the final costs were reported as \$3,845,739; more than \$2 million over budget.
- Two of the three projects that did not exceed the budgeted amount were the Metro rail projects. However, DOT staff act more as sub-contractors for these projects as they perform work on the parts that are physically located within City boundaries, as the schedule and scope for these projects is dictated by Metro. Therefore, if we consider only the 10 Metro and Caltrans projects, the total cost overruns are \$5.3 million.

Throughout the course of the audit, DOT staff indicated that projects tend to exceed the budgeted amount. This statement is supported by the results of our project file review and underscores the concern regarding comprehensive project management and monitoring of costs.

An automated project management system would provide the Department with accurate, timely, and complete project costs, and also potentially minimize cost overruns by allowing staff to proactively monitor costs.

Project Status Reports

The Department was unable to provide a complete list of projects or programs that are funded (partially or completely) with Prop C monies. A good project management system should have this information readily available.

Since a complete list of Prop C funded projects is unavailable, we reviewed the Streets and Transportation Project Oversight Committee list, which is maintained by the CAO. This list indicates that as of April 2014, DOT was managing 117 transportation projects, with a total budget of \$348.2 million. \$48.9 million of Prop C funding is dedicated to 102 of these projects. DOT staff indicated that the Department is currently helping to administer over 200 projects, which requires staff time to gather and submit billings to Grantors. However, some of the “project” lists include any project, service, program, or

contract paid for with Prop C funds. This discrepancy illustrates the Department's need to define what constitutes a Prop C project.

- **Streets and Transportation Project Oversight Committee (STPOC) List**

Staff from the CAO's Office indicated that they have also requested a list of projects from DOT several times in the past. Since a list was not readily available, the CAO assigned staff to compile a list of all the transportation-related projects assigned to City departments, including DOT and the Public Works bureaus. The list includes the project location, scope, source of funds, the Project Manager, status (i.e., pre-design or construction), and comments regarding project progress.

The list is currently used by the STPOC, which is a group created and coordinated by the CAO in recent years in an effort to improve inter-departmental project coordination and communication for transportation projects. While the list shows relevant project information for Prop C funded projects, it must be manually compiled by staff and it does not provide detailed project information such as costs incurred or project deadlines and deliverables. These elements would typically be included and available from a good project management system.

- **Metro's Form C**

Metro requires each recipient of the Prop C local return funding to submit a "Form C" each fiscal year, which is the annual expenditure report. The Form C lists all of the projects, programs, services or contracts Metro has approved (as Prop C eligible), along with the projects' budgeted and the prior year expenditures. The FY 2012-13 Form C listed 321 projects with \$110.4 million associated expenditures, and a total budgeted amount of \$421.9 million

While the Form C is helpful in determining annual expenditures, it does not include cumulative expenditures. According to staff, there may be some bundled projects within a line item, making it difficult to count the actual number of individual projects or programs associated with the budgeted or expended amounts.

It takes a significant amount of staff time to compile the relevant information for individual project status updates which should be provided to Departmental management/City stakeholders on a regular basis to ensure projects are completed on time and on budget. Further, since the Department

does not have a system that can generate a report that provides a comprehensive overview of all of the Prop C funded projects, neither policymakers nor the public can assess the City's effectiveness in achieving its transportation goals through the use of Prop C funds.

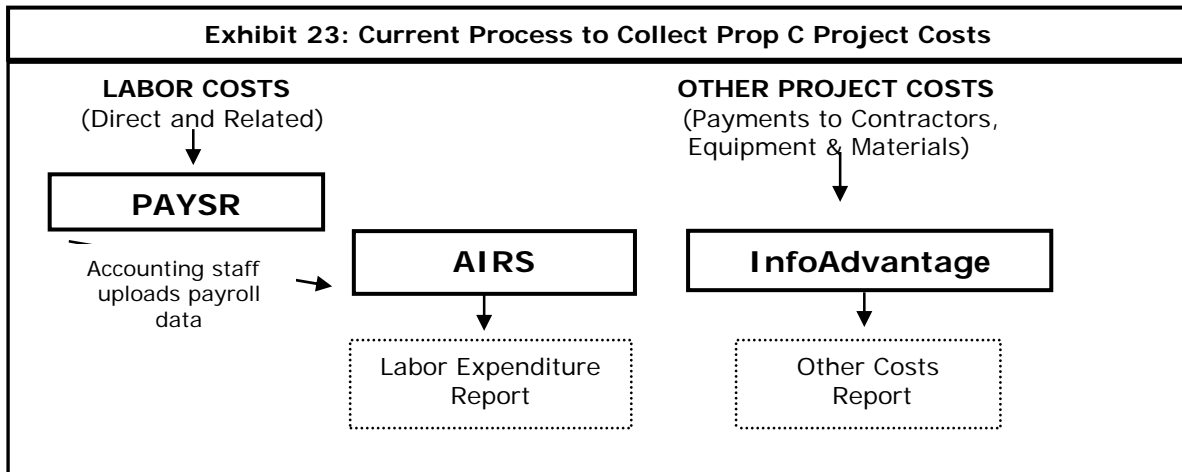
Cost Reports

In 2012, DOT purchased off-the-shelf project management software, Project Management Central (PMC), for less than \$11,000. It was installed by DOT Systems Specialists, who also provided training to DOT Engineers who were to use it to track project information. However, the system is not consistently used by the Department's project management staff. Project Managers (PMs) indicated that the system is not efficient, and instead they employ other tools, such as excel spreadsheets to track project costs and timelines.

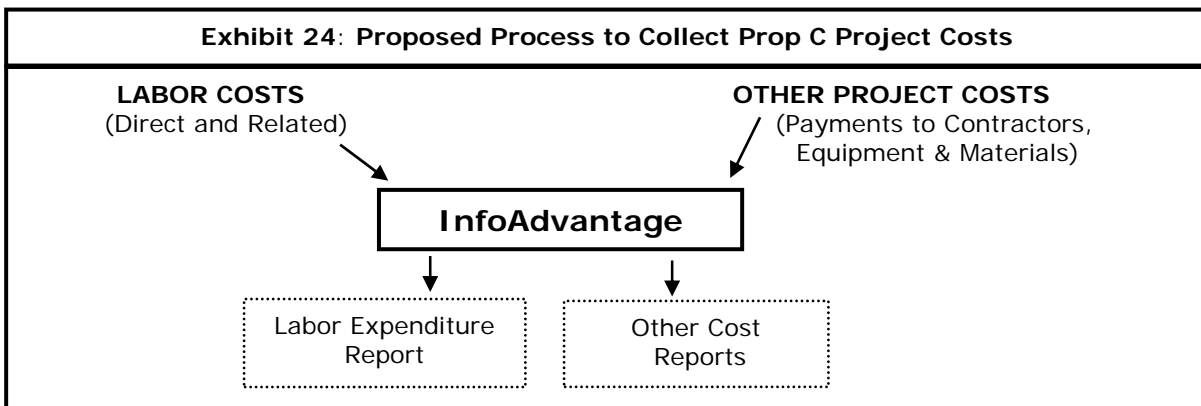
In addition to employing informal processes to track project information, the Department uses inefficient systems to collect project costs. In order to obtain all project costs, PMs must work with accounting staff to run two different reports from two different systems: the Department's in-house accounting system, Accounting Integrated Reporting System (AIRS) and the City's financial management reporting system, InfoAdvantage.

1. **AIRS** generates a labor report, which lists all of the time and labor charges (direct and related costs) that project staff have charged to the project, as defined by a specified work order number.
2. **InfoAdvantage** generates a cost report which lists all of the non-labor costs incurred by a project, as defined by a specified work order number. This primarily consists of payments to contractors for construction costs, but may also include materials and equipment.

There is also an additional step that must be completed to obtain the labor costs. Since AIRS must be populated by the City's automated payroll system, PaySR, DOT accounting staff must manually download the payroll information every other week.



Though InfoAdvantage automatically interfaces with PAYSR, which would allow the system to generate the labor costs, this method is not used, even though it would eliminate several steps, as noted in Exhibit 24.



Staff indicated that they have tried to generate the cost reports from InfoAdvantage, but it often takes longer than AIRS because of system down time and because they have been using AIRS for several years and are more familiar with the reports. They also explained that since the City migrated from the previous Financial Management Information System (FMIS) to the current Financial Management System (FMS), they have to run reports from two different data universes/sources¹⁰, which decreases InfoAdvantage's efficiency. While the Department may have to generate two separate reports for older projects, this need will decrease as the projects age.

¹⁰ FMIS contains City financial data through June 30th, 2011 and FMS contains data from July 1st, 2011 through the present.

Multiple Work Orders

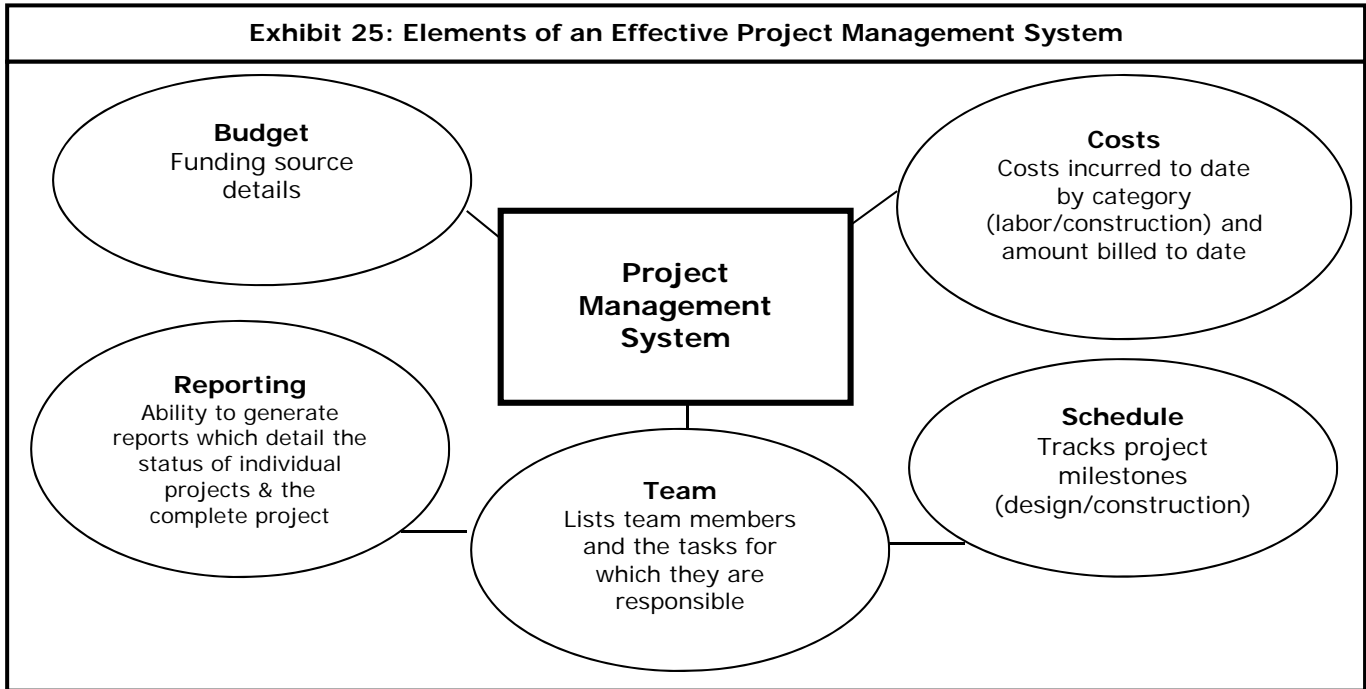
The ability for PMs to proactively monitor all of the project costs is further complicated by the fact that the aforementioned process only applies to the costs incurred by DOT staff. Since staff at the Public Works bureaus also work on Prop C projects, the PMs must also monitor and collect these costs. However, each Department that works on the same project uses their own work order numbers. As a result, several work orders can be associated with a single project. Also, since the Public Works bureaus use their own cost reporting system, MERLIN, the DOT PMs do not have the ability to directly access these labor and cost reports. Instead, they must request the reports from Public Works and wait to receive copies. However, by this time, it may be too late to identify cost overruns or erroneous project charges.

For example, for one Caltrans project we reviewed, the project budget was \$99,112. However, when we ran the work order reports associated with the project, we found that one of the work orders associated with a Public Works bureau had already incurred over \$1 million in labor charges. DOT project management staff was not aware of this amount until we brought it to their attention. They stated that this was not representative of the true project costs, but was a time-keeping error. Specifically, administrative support staff were erroneously charging their time to the work order.

Project Management System Elements

Given the scale of Prop C projects and interdepartmental coordination required to complete them, Project Managers should have access to a strong project system to enable them to efficiently monitor project timelines and budgets. At a minimum, the Department should be able to report the number of projects completed with Prop C funds.

A good project management system typically includes the following features:



A good project management system would also interface with a grants management system/module which would automatically produce invoices, calculate direct and related costs owed to other funds (i.e., the General Fund), generate accounting entries, and update the relevant financial reports. (see Finding No. 6)

The Department indicated it has not dedicated the resources needed to develop or purchase a project management system that will meet the needs of DOT Project Managers. While the Department did not provide cost estimates, the cost of project management software could vary greatly depending on whether it is off-the-shelf, cloud-based or customized. The Department previously purchased an off-the shelf system for approximately \$11,000, which also required on-going support from in-house information system support staff. The newer models of cloud-based solutions are generally paid through a monthly or annual subscription, which can range from \$5 per month for each user or several thousand dollars a year, whereas customized solutions are usually the most expensive model and can cost several hundred thousand dollars or more.

The Department explained that it has made efforts to identify solutions which may address its project management needs, by meeting with the following entities:

- The vendor of the City’s current accounting system, CGI to discuss incorporating grant accounting/project management.

- The General Services Department (GSD), to discuss the possibility of using the E-time system. However, the system is not complete, and it is only supported by one person so it is not reliable.
- The Bureau of Engineering, (BOE) who has developed the Uniform Project Reporting System (UPRS), which has been referenced as a more efficient system, in that it is able to generate project reports. While UPRS does not address all the Department's project management needs, it appears to be an improvement on the current system.

Since the City's Prop C funding is not adequately monitored or tracked in a comprehensive project management system, the Department is not able to demonstrate that monies are being used effectively. Specifically, Prop C funding details should include the number of projects which utilized Prop C funding, a listing of completed projects, and the total project costs for these completed projects. This would enable DOT to report on how City residents have benefitted from the use of the funds.

Recommendations

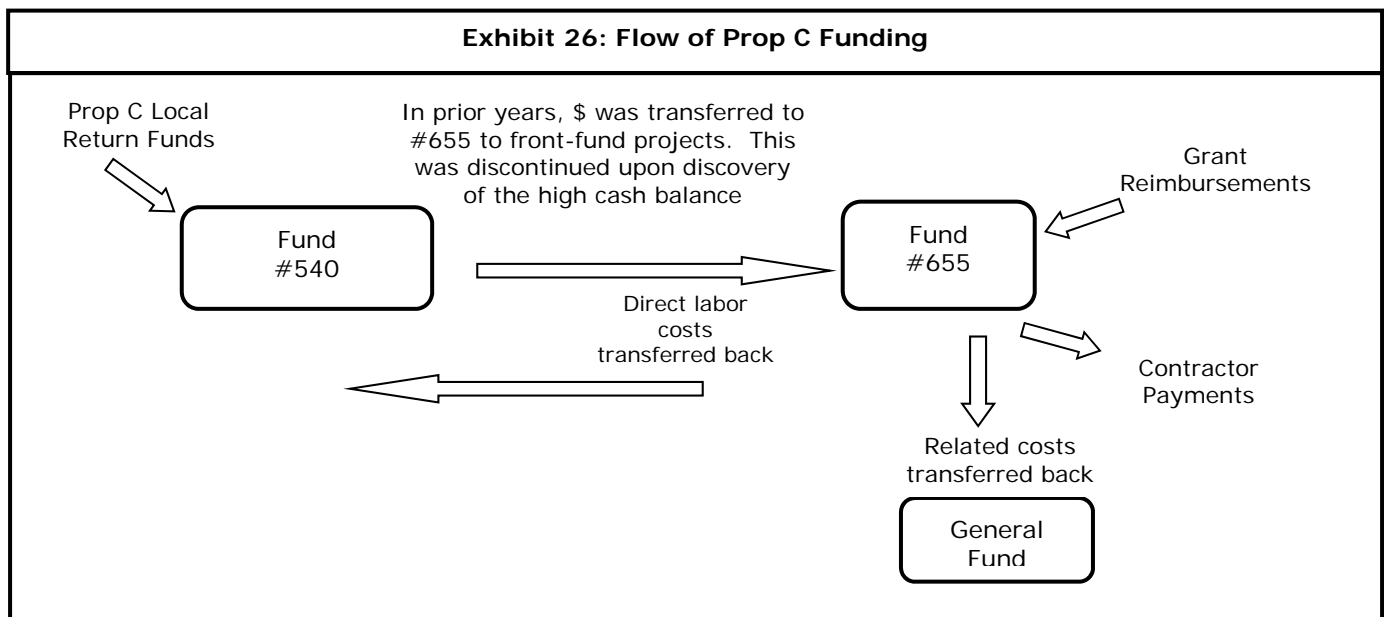
- 3.1 DOT management should discontinue the use of AIRS and develop queries in InfoAdvantage, the reporting module within the City's Financial Management System.**
- 3.2 DOT management should work with the Public Works Bureaus to explore using a single work order number per project, for all departments that work on a Prop C project.**
- 3.3. In conjunction with the Public Works Bureaus, DOT management should formally evaluate the possibility of using UPRS to determine if it can be implemented as a permanent project management system that would meet the City's needs for managing the projects and funding sources of transportation projects.**
- 3.4 If it is determined that a new project management system is required, DOT management should, in conjunction with the Public Works Bureaus that work on Prop C funded projects, develop a strategy for fully implementing a comprehensive project management system.**

Section III: Accounting of Proposition C Funds

Finding No. 4: The lack of timely reconciliations of the two special revenue funds that account for Proposition C funds, resulted in the inability to forecast funding needs for future projects.

Though intended to operate as a revolving fund, the Department has not been able to completely reconcile Fund #655. Further, the lack of transparency caused by uncertain available balances within these funds hampers the City's ability to adequately plan for future transportation projects that use Prop C funding to leverage competitive grant awards.

The City's Prop C funding is accounted for in two special revenue funds (#540 and #655) and the General Fund. The Local Return funding is deposited in Fund #540 and is transferred through the budget process to individual department accounts within the General Fund, to pay for project costs. Contractor payments are paid out of Fund #655, which is where the grant reimbursements are deposited. Upon receipt from Grantors, the direct labor costs must be transferred back to Fund #540 and the related costs must be transferred back to the General Fund. Below is a high level illustration of the flow of funding between them:



This process requires several accounting transactions. If transactions are not completed timely or correctly, issues can arise, such as the Department failing to reimburse the appropriate fund (see Finding No. 5). Further, we found that this current process hinders financial transparency and the Department's ability to assess the fiscal condition of its Prop C funded priorities.

Creation and Limitations of the Funds

The Prop C guidelines require the City to establish a separate fund to account for the LR funds. In order to meet audit requirements and track the Local Return funding, the City established a special revenue fund (Fund #540) in 1992, after Proposition C was approved by voters. However, it is unclear why Fund #655 was established in 1996. Council File 95-0526 states that the Fund be established for the *"purpose of receiving and expending transportation grants monies."* No one at DOT could articulate why an additional fund was needed, and the Council File does not provide a detailed explanation. We speculate that it was created to serve as a repository of funds and as an accounting tool to manage multiple grant funded projects that required front-funding and matching funds.

As the repository of a consistent and dedicated revenue source, the LR Funds, Fund #540 is included in the City budget. However, since Fund #655 was established as a revolving fund, it is not included in the City budget, and subsequently receives less scrutiny. For example, City staff did not completely reconcile Fund #655 in prior years, and indicated that it would be labor intensive to do so now. Consequently, current DOT staff cannot easily determine how much was used on previous projects, nor how much will be needed for future projects, but they did express concern that there is a risk that Fund #655 and Fund #540 will be depleted in the next five to ten years.

Depletion of Prop C Funds

The Department cannot accurately forecast the future condition of the Funds, but staff believes there is a risk they will be depleted for several reasons, including project cost overruns, lack of project funding sources, the use of Prop C funds to augment departmental budgets, and reimbursement of related costs.

Cost Overruns

Accounting staff indicated that it is possible that cost overruns will contribute to the depletion of Fund #540 and Fund #655. The following illustrates this scenario:

If a \$1 million project requires a 20% match, the total amount that will be reimbursed by the Grantor will be \$800,000. A potential project budget and billing methodology could include the following amounts:

Exhibit 27: Example of Prop C Project Budget and Billing Methodology			
<u>Project Budget</u>		<u>Billing/Reimbursement Disbursements</u>	
Direct Labor Costs (Front-funded by Dept. budget allocations from #540)	\$200,000	Direct Labor (Match amount will be absorbed by #540)	\$0
Related Costs (Front-funded by GF)	\$200,000	Related cost to get reimbursed (To be transferred back to GF)	\$200,000
Contractor costs Paid out of #655	\$600,000	Contractor cost to get reimbursed (Remains in #655)	\$600,000
Project Budget	\$1,000,000	Actual Reimbursement Amount	\$800,000

In this example, Fund #540 will absorb \$200,000. If the match was correctly identified and considered in the Prop C budget, it should not deplete the Prop C funds. However, if the direct labor costs exceed the budgeted amount, Fund #540 must absorb this excess amount. Similarly, if the contractor costs exceed the \$600,000 amount, Fund #655 will have to absorb the excess.

As discussed in Finding No. 3, we noted examples of significant cost overruns on the reported costs for nine out of the 12 project files we reviewed.

Lack of Project Funding Details

In the past, the Department did not use a formal template that lists the total project costs or the various funding sources, including the funding source for the match amount, all grant sources, and City funds, used to complete Prop C projects. These items are necessary for budget staff, accounting staff, and Project Managers to have a comprehensive and accurate view of the Prop C funding details. For example, the Department did not adequately track and record the numerous transactions in and out of Fund #655 (see Finding No. 5). As a result, it is not able to specifically identify the source of, or the anticipated expenditures of, some of the cash that remains in that Fund.

The Department also indicated that based on discussions with the CAO, it has agreed to maintain a cash balance of \$50 million in Fund #655 to ensure the Department has sufficient funds to pay contractors. Accounting staff explained that the \$50 million amount was determined by averaging the non-labor costs paid out of Fund #655 during fiscal years 2010, 2011, and 2012.

Augmenting Departmental Budgets

Although the Department cannot provide the details of how much Prop C funding is leveraged with other grant funding, versus how much is dedicated to stand-alone projects, staff indicated that it appears that Prop C funds are increasingly being used on stand-alone projects in an effort to relieve the General Fund.

While policymakers have the discretion to use the Prop C funds on any eligible project or program, it should be noted that stand-alone projects do not leverage or generate additional grant revenue.

Related Cost Reimbursement

Accounting staff indicated that the Department has been directed to first reimburse the General Fund for related costs when grant reimbursements are received from Grantors. While staff acknowledged the importance of reimbursing the General Fund, they indicated that this will also contribute to the rapid depletion of Fund #540, because oftentimes the Department is not reimbursed for all of the related costs incurred by City staff. For example,

- Caltrans will only reimburse an invoice for related costs if the current year Cost Allocation Plan (CAP) rate is used. The City's CAP rate is currently two years behind. Thus, DOT does not bill the related costs incurred by these projects and will only do so when there are available funds remaining upon project completion. This is rarely the case due to cost overruns.
- When there are project overruns, it is likely that the City will bill the Grantor up to the grant award amount before recovering the related costs.

Administering departments that oversee special revenue funds should be able to reconcile and report on the condition of the funds based on anticipated revenues and expenditures. This information is necessary so City stakeholders, such as the CAO and policymakers, can develop long-range project plans.

Further, the lack of transparency and timely reconciliation resulting in uncertain available balances within these funds hampers the City's ability to adequately plan for future transportation projects that use Prop C Local Return funds to leverage competitive grant funding.

The City may apply for grant funding for future projects, but may not have the Prop C funds needed to match the grants, and will have to delay or abandon those projects.

Consolidation of Funds #540 and #655

Since Funds #540 and #655 are so intertwined, the Department should consider consolidating the funds, after Fund #655 has been reconciled.

Although the Department discontinued the practice of transferring front-funding out of Fund #540 to Fund #655, the direct labor cost reimbursements, once received from Grantors, still have to be transferred out of Fund #655 and into Fund #540. Consolidating the funds would eliminate this step. Further, since the Prop C funding should be included in the City's budget, this would also increase the transparency of how the funding is used.

Recommendations

DOT management should:

- 4.1 Convene a working group of staff that work on Prop C projects, including accountants, budget staff, and Project Managers to determine the current number of active and future Prop C funded projects to forecast the amount of funding that will be needed.**
- 4.2 Completely reconcile the funding in Fund #655, and once it is reconciled *and* a grants accounting system is implemented, consider consolidating Fund #655 into Fund #540.**

Finding No. 5: The City has not established clear guidelines regarding the transfer of reimbursements back to special revenue funds or the General Fund, when monies from these sources are used to finance grant funded projects.

Since 2013, DOT has transferred \$62.2 million in grant reimbursements out of Fund #655 back to the General Fund or Fund #540. If the City had clear guidelines, these transfers would have occurred several years earlier.

Fund #655 was established to function as a revolving fund for grant-funded transportation projects. As such, funds should only be held for a short period of time, until they are transferred to the respective fund. They should not maintain a high level of cash for a significant amount of time. However, in 2011, DOT reviewed the fund balances in the various special revenue funds it administers and found that Fund #655 had a cash balance of \$193 million.

Based on this high amount, departmental management directed accounting staff to reconcile one fiscal year of transactions, FY 2011-12, to determine if amounts were owed to other funds. This exercise identified \$9 million in related costs that had been front-funded by the General Fund, but were not reimbursed. Subsequent to this finding, the Department reconciled prior years' transactions for Fund #655 and determined that there were additional monies front-funded by the General Fund or Fund #540.

Direct Costs (Front-funded by Fund #540)

Direct costs include base labor/salaries, compensated time-off (CTO), and fringe benefits that were incurred for various projects, and subsequently reimbursed by Grantors. As described in the Background section on page 8, each month, 1/12 of the annual budgeted amount is transferred from Fund #540 to departments' general fund accounts to cover their direct salary costs (excluding fringe benefits) for work completed on Prop C grant funded projects.

The reconciliation completed in 2013 by DOT accounting staff determined that Fund #655 owed Fund #540 a total of \$15.9 million for direct costs that were incurred during fiscal years 2010, 2011, 2012 and 2013. This amount was transferred back to Fund #540 in March 2014.

Exhibit 28: Prop C Funding Transferred From Fund #655 to Fund #540		
(Direct Costs)		
Fiscal Year Costs Were Received From Grantors	Amount	Date Transferred to #540
2009-10, 2010-11, 2011-12, 2012-13	\$15,878,264	March 27, 2014
Total for Fiscal Years 2010 – 2013 <i>(As of April 2014)</i>	\$15,878,264	

The amount of direct costs owed to #540 for fiscal years prior to 2010 is unknown. Per DOT accounting staff, this reconciliation would take a significant amount of staff time because they would need to identify the direct labor costs incurred by each project completed prior to 2010, and they do not currently have resources to complete this undertaking.

Related Costs (Front-funded by the General Fund)

Related costs include administrative costs, central services costs and overhead costs that were incurred for various projects. These costs are generally covered by the General Fund.

During the reconciliation, DOT accounting staff identified that several different transfers, which totaled \$14.9 million, had been made from Fund #655 to the General Fund in prior years. However, the formal reconciliation completed by staff in 2013 determined that the General Fund had front-funded an additional \$42.6 million in related costs for Prop C grant funded projects covering FY's 1996-2011. This amount was transferred from Fund #655 to the General Fund in August 2013. The most recent reconciliation completed by staff found that Fund #655 owed the General Fund \$3.8 million for related costs for FY's 2012 and 2013. This amount was transferred in late March 2014, during our audit fieldwork.

Exhibit 29:		
Prop C Fund Amounts Transferred From Fund #655 to Various Department's General Fund		
(Related Costs)		
Fiscal Year Costs Were Received From Grantors	Amount	Date Transferred to the General Fund
NA	\$14,866,511	Several prior to 2013
1996 -2011	\$42,557,206	August 29, 2013
2011-12 & 2012-13	\$3,803,692	March 27, 2014
Total for Fiscal Years 1996 - 2013 <i>(As of April 2014)</i>	\$61,227,409	

As a result of the various reconciliation efforts, a total of \$62.2 million has been transferred out of Fund #655 since 2013, and as of March 31, 2014, the cash balance in the fund was reduced to \$72.1 million.

Lack of Clear Guidelines Regarding Transfers

While it is critical that special revenue funds and the General Fund are reimbursed for front-funds it is owed, the City has not clearly articulated **what** related costs should be transferred. Specifically, it is questionable whether departments should be required to transfer monies that are not reimbursed by the Grantor.

DOT accounting staff explained that there may be projects for which the Department only recovers some of, or none of the related costs; however, DOT has been required to transfer all of the related costs charged to a Prop C project. For example, grant reimbursements for an approved project might only recover the construction contractor payments and the direct labor costs, as illustrated in the exhibit below. In this case, the Department would not get reimbursed for the related costs incurred on the project, but per staff’s current understanding, it would still be required to track the amount and ultimately transfer associated monies for related costs incurred, but not reimbursed to the General Fund.

Exhibit 30: Example of Current Prop C Reimbursement Transfers		
<u>Project Billing Invoice Submitted to Grantor</u>	<u>Reimbursement Received from Grantor</u>	
Direct Labor Costs (Front-funded by Dept Budget Allocations) \$10,000	Direct Labor Costs \$10,000	→ \$10,000 transferred back to
Contractor costs \$20,000 (Paid out of #655)	Contractor Costs \$20,000	→ \$20,000 remains in Fund #655
Related Costs \$15,000 (Front-funded by GF)	Related Costs \$0	→ \$15,000 transferred to the General Fund
<hr/> Total Amount Billed \$45,000	<hr/> Total Reimbursement \$35,000	

Further, while DOT developed a process to track amounts owed back to the General Fund and to Fund #540 in the last fiscal year, it only recently developed internal guidelines which dictate when the transfers should be made. Subsequent to our audit fieldwork, the Department indicated it has determined that it will transfer funds out of #655 once each fiscal year. Staff

will compile the accumulated reimbursed amounts from the prior fiscal year and transfer that amount at the beginning of the next fiscal year via the Department's first Financial Status Report (FSR). For example, all of the reimbursements received during FY 2013-14 will be transferred back to the General Fund or Fund #540 at the beginning of FY 2014-15.

DOT staff indicated that while they have attempted to use a work-around process to track the direct and related costs within the City's current accounting system, they still lack:

- An adequate grants accounting system, and
- Formal accounting guidance from the Controller's Office/City Council that will help ensure consistent and timely transfers in the future.

These issues are discussed in more detail in Finding No. 6 and Finding No. 7.

Departments that utilize special funds should monitor funding that is due back to the General Fund or other special revenue funds, and should make all necessary transfers of monies in a timely manner.

Recommendation

- 5.1 DOT management should work with the Controller's Accounting Operations Division to establish clear guidelines which dictate under what circumstances cash balances representing grant reimbursements for direct and related costs should be transferred to the General Fund and Fund #540, respectively.**

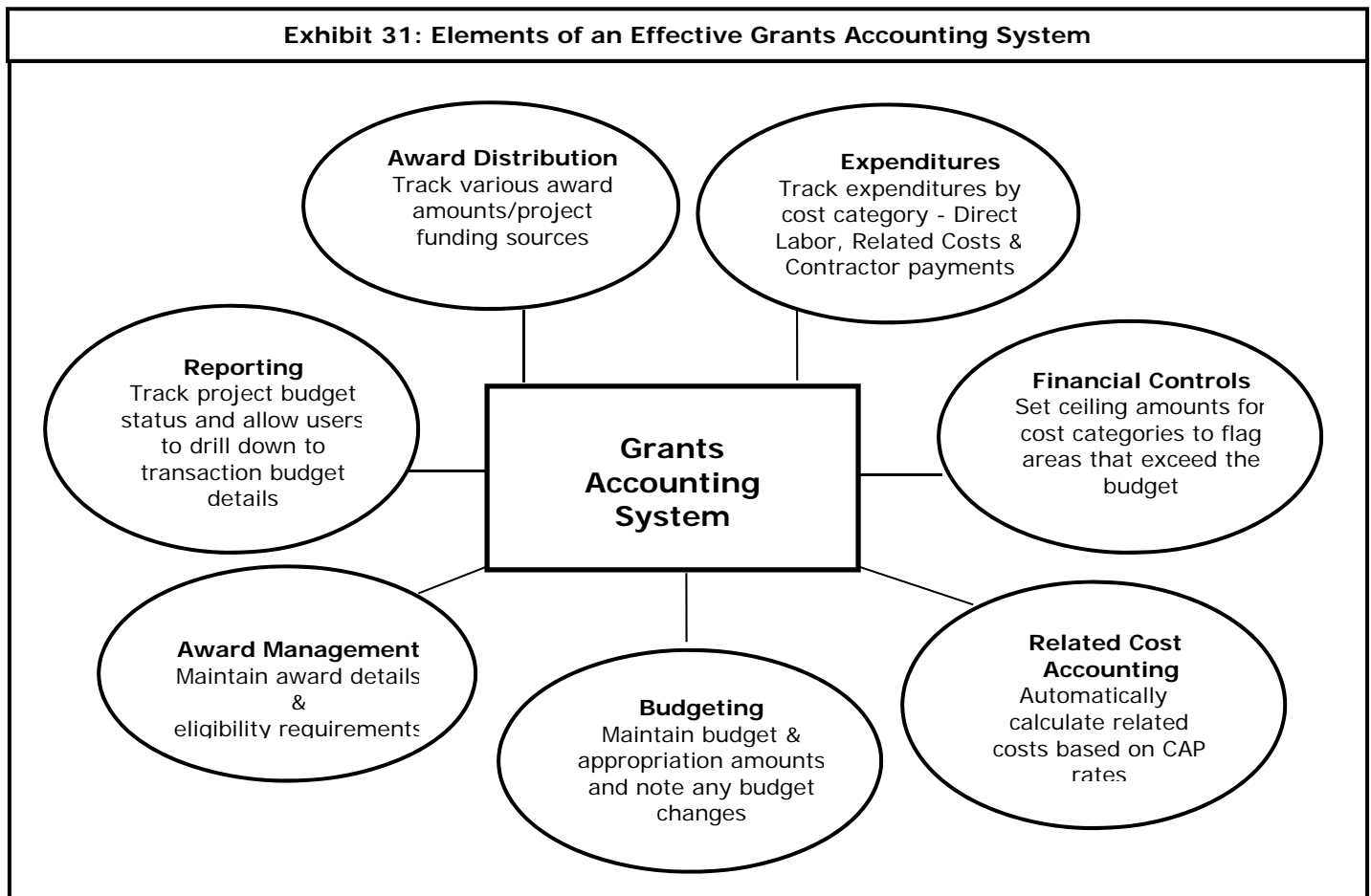
Finding No. 6: The Department's grants accounting system relies primarily on manual processes and ad-hoc reports.

The lack of a grants accounting system results in inefficiencies in tracking and monitoring billing deadlines, calculating and distributing costs to various funds, and providing useful and timely management reports.

The City receives two types of grants: entitlement/formula grants and reimbursable grants, which are very different in terms of accounting practices and cash flow. If a Department receives an entitlement grant, they typically "draw down" the funds required to administer the associated program or service from State or Federal grant systems. This is a more direct process for receiving cash than the reimbursable grants, which require front-funding to pay for program or project expenditures and then billing the Grantors; also, each billing is usually different. For example, one billing might only include labor, whereas another might just be for contractor payments, so each billing requires a significant effort for staff to compile and review to ensure the amounts are calculated correctly.

Since grants accounting requires staff to prepare different types of billings/invoices and to process many manual transactions, it is critical that an efficient system is available to ensure accurate and timely processes.

Typical key features of grants accounting systems include the following:



The City’s current accounting system, FMS, lacks nearly all of these grant specific features, and as a result the Department does not have an adequate grants accounting system that enables accounting staff to efficiently:

- 1) Track/monitor grant billing deadlines
- 2) Track and generate billings and reimbursement requests
- 3) Calculate and track/distribute direct and related costs to the various funds
- 4) Generate reports that detail Prop C project costs in real-time. (The grant balance, outstanding billing receivable and final project costs)

When the City migrated from the previous Financial Management Information System (FMIS) to the current Financial Management System it did not purchase the grants accounting module. Currently, Accountants rely on Project Managers to notify them when a Grantor should be billed, which usually results in late billings and affects cash flow in Fund #655. For example, during our review, we noted that only one of the nine projects had

billings submitted in accordance with the Grantors' billing cycles (see Finding No. 8 for more details).

The current process is manual, tedious, and time-consuming. It prevents accounting staff from working on other tasks such as compiling the billing dates for projects, and project costs for departmental management. Further, Project Managers cannot proactively monitor the amounts billed to Grantors as related to their specific projects, which would also help them control project costs.

Partly as a result of the lack of a grants accounting system, the Department did not track the direct costs or related costs associated with billings to Grantors prior to 2012 (see Finding No. 5). Consequently, when the grant reimbursements were received, the Department did not always reimburse the specific costs to the appropriate fund (i.e., direct costs to Fund #540 or related costs to the General Fund).

In late 2012, the Department revised how it records accounting transactions to help it categorize and track various expenditures, for example:

- Upon receipt of a reimbursement from a Grantor, DOT deposits the amount received in Fund #655 and assigns sub-revenue codes in FMS to earmark the costs that should be transferred back to Fund #540 and/or the General Fund.

However, even though DOT assigns sub-revenue accounts within Fund #655 to track the outstanding transfer to the General Fund and to Fund #540, there is no automatic transfer of these funds, nor is there a formal policy which dictates when the transfer should occur.

While the current process is an improvement, it is also manual, tedious and time consuming. It prevents accounting staff from working on other tasks such as billing for other grants, which brings in revenues to the Department.

At a minimum, the Department should have a system that identifies the total project cost, the labor cost (including related costs), contractor payments, the required appropriated amount, the match amount, and the billing deadlines. Further, all of the City's grant receipts and the Prop C funds used to leverage these grants should be properly accounted for in an automated grants accounting system that would ensure:

- The City bills Grantors in a timely manner, so cash flow in the special revenue funds is steady.
- The General Fund and Fund #540 are reimbursed in a timely manner.

- Project costs can be proactively monitored and reported.

Recommendation

6.1 DOT management should work with the Controller's Office and other appropriate parties to explore the possibility of purchasing a grants accounting module.

Finding No. 7: DOT does not always record financial transactions accurately or consistently.

As a result, some financial information in the Financial Management System (FMS) is inaccurate or misleading. For example, Grants Receivables reflected in FMS are overstated by \$297.8 million, and FMS reflected \$694 million in unappropriated commitments as of March 31, 2014, even though the cash balance in Fund #655 was only \$72 million.

The Financial Management System (FMS) is the City's official accounting system. As such, the information should be recorded in accordance with Generally Accepted Accounting Principles. Further, it is critical that the system contain accurate information as policymakers may rely on this data for decision making.

However, neither the Controller's Office nor DOT has developed clear guidelines for posting common transactions, such as transfers of interest from one fund to another. Specifically, we noted issues with the recording of grants receivables, commitments, interest income, and "Due To" and "Due From" other funds.

Grants Receivables

The Grants Receivables balance reflected in FMS as of March 31, 2014 for Fund #655 is overstated by \$297.8 million, which is the entire account balance. Grants Receivables should not be established until expenses have been incurred on projects.¹¹ However, DOT frequently sets up a Grants Receivable before the expenses have been incurred, sometimes at the time the grant has been accepted by the City.

The Department explained that it generally establishes Grants Receivables only when directed to via Council Files. If directed, they record these receivables, even though it may disagree with the appropriateness of the transaction. This was confirmed by our discussions with staff from the Controller's Accounting Operations Division, who stated that it will also post

¹¹ Generally Accepted Accounting Principles dictate that in the case of reimbursable grants (grants in which funds are received only after cost have been incurred) a receivable should not be established until costs have been incurred.

transaction in FMS based on Council File instructions, even though it might not agree on the appropriateness of the transactions.¹²

Since July 1, 2011, the Department has only posted debit transactions (increases) to Grants Receivables, which has increased the balance by \$43.3 million (through March 31, 2014). Because the Department does not post any transactions that would reduce the balance (e.g., such as when the monies are received), the Grants Receivables balance will continue to grow indefinitely, unless the Department takes action to stop posting these incorrect transactions.

For purposes of the City's year-end financial statement presentation, DOT works with the Controller's Office to determine and report accurate receivable balances. However, these adjustments are not recorded in FMS.

Uncommitted Appropriations

Appropriations are a budgetary control that authorize City departments to incur obligations or to make expenditures. Typically, the amounts appropriated should not exceed the amount of cash on-hand, plus anticipated revenues through the next year. Expenditures and encumbrances charged against the appropriations reduce the uncommitted appropriations balance.

As of March 31, 2014, we noted that Fund #655 showed \$694 million in uncommitted appropriations for 939 "projects".¹³ Further analysis found that of the \$694 million, \$361 million related to appropriations established at least five years prior. DOT staff stated that most projects are typically completed in four years or less. Thus, it is likely that the \$361 million relates to many projects that are no longer active. Thus, many appropriations should have been "closed", thereby reducing the amount of uncommitted appropriations.

DOT accounting staff agreed that the uncommitted appropriations balance is vastly overstated. They provided the following as likely explanations for why the uncommitted appropriation balances reflected in FMS are so high.

- Some projects may have been appropriated multiple times. For example, \$1 million might be appropriated in the first year for a \$1 million project. If the project incurred \$600,000 in expenses that year, the remaining balance would be \$400,000. In the following year, the Department might mistakenly appropriate an additional \$400,000,

¹² The receivable transactions are entered into FMS by DOT and then approved by the Controller's Accounting Operations Division.

¹³ Typically, appropriations are established to control expenditures made for specific projects.

thereby increasing the uncommitted balance to \$800,000 resulting in an overstatement of \$400,000.

- There may be some projects that were canceled or combined with other projects, but the appropriation account was never cancelled.
- The initial amount appropriated may have been overstated. Usually, the amount appropriated should be equal to the amount that is expected to be paid to contractors out of Fund #655. For example, if a \$100,000 project consists of \$80,000 in direct labor costs and \$20,000 in contractor payments, the appropriation should have been established for only \$20,000, since the \$80,000 in direct labor cost would not be paid out of Fund #655, rather it would be paid directly by the departments' General Fund or Fund #540. In this instance, DOT may have appropriated \$100,000.

As with Grants Receivables, Department staff stated that they are sometimes directed to establish an appropriation via Council Files, even though they may not agree with the appropriateness of the transaction. However, if the Department does not agree with Council File directions regarding the recording of transactions, it should express its concerns to the Controller's Office and/or to Council.

Interest Income

Because of the high cash balances that have been maintained over the years, Fund #655 has earned over \$60 million in interest since the Fund's inception in 1996. Annual interest income has been as high as \$9.8 million. However, with a significant reduction in the cash balance over the past few years, coupled with historically low interest rates, FY 2013-14 interest earnings related to this Fund were expected to be only about \$1.3 million.

Since Fund #655 is considered to be a revolving fund, DOT periodically transfers the interest earnings to Fund #540. We reviewed these transfers to ensure Fund #540 has been credited with all the interest it is entitled to receive. According to our calculations, as of March 31, 2014, Fund #655 still owed Fund #540, \$1.9 million in interest. Technically, since the General Fund also funds projects for which reimbursement receipts were credited to Fund #655, a portion of the interest income should also be transferred to the General Fund. However, this would require the Department to determine an appropriate allocation methodology to split the interest earnings between Fund #540 and the General Fund, which would be difficult. It should be noted that since Fund #540 provides monies each year to various departments'

General Fund accounts, a portion of the interest is indirectly transferred to the General Fund.

In reviewing the transfers of interest earnings, we noted the following issues:

- The Department does not have policies and procedures for when the transfers should be made. We noted that the transfers were not made on a regular basis. For example, the first transfer did not occur until FY 2006-07, even though the Fund began accumulating interest in 1996. There were no transfers made in FY 2009-10 or FY 2011-12.
- There is no established methodology for determining how much interest to transfer. Several of the transfers were for even dollar amounts (e.g., \$6,000,000 or \$10,700,000), suggesting that the amounts were somewhat arbitrary. Council files authorizing the interest transfers did not show how the amounts were determined.
- There were no Due To transactions set-up in Fund #655 or Due From transactions set-up in Fund #540, to reflect the amount owed to Fund #540 (but not yet transferred) at any given time.
- The accounting entries were not consistent. Specifically in Fund #540, the transfers were recorded in one of four ways: Interest Income, Miscellaneous Receipts, Additional Interfund Operating Transfers, and Correction of Prior-Year Fund Balance. In Fund #655, the transfers were recorded in one of three ways: Negative Interest Income, Additional Operating Transfers to Other Funds, and Correction of Prior-Year Fund Balance.

Due To and Due From Transactions

As previously indicated in Finding No. 5, since 2012, the Department has used an established methodology to track how much is owed to the General Fund and to Fund #540 for reimbursement of front-funded costs. Periodically, DOT reimburses these funds via transfers from Fund #655. However, DOT does not record "Due To" transactions in Fund #655 or "Due From" transactions in the General Fund or in Fund #540 to properly reflect amounts owed by Fund #655. As of March 31, 2014, Fund #655 owed at least \$4.3 million to the General Fund and Fund #540.

Recommendations

- 7.1 The Controller's Accounting Operations Division should develop clear guidelines (consistent with Generally Accepted Accounting Principles) for posting common transactions, such as transfers of interest from one fund to another and how to record Grants Receivables.**

- 7.2 The Controller's Office should ensure appropriate accounting postings, and should notify Council in those situations where a Council File directs the Department or Controller to post a transaction that is not consistent with the guidelines.**

- 7.3 DOT management should review the appropriation balances comprising the high uncommitted balances in FMS to determine those that should be canceled or modified.**

Finding No. 8: DOT does not submit claims to Grantors in accordance with billing cycles, which deprives the Department of cash flow.

Our testwork found that DOT failed to submit timely billings for \$2.6 million in costs incurred on eight of nine projects sampled.

Since Prop C funded projects are usually large-scale transportation capital projects with large budgets and take several years to complete, one project may require the Department to submit several claims (billings) to recover the total grant award as reimbursement of incurred costs. For example, for one project, the Department submitted 29 invoices over the course of seven years.

The two primary Grantors of projects for which the Department uses Prop C funds have different billing cycles. Caltrans requires grantees to submit billings every six months, while Metro requires quarterly billings. However, we found that the Department did not submit timely billings to the Grantor for \$2.6 million in costs incurred on eight of the billing files we reviewed. The total billing amount reviewed was \$5 million. Most of the project billings were submitted several months, and in some cases, years after the work was completed on the projects. For example, DOT and the Bureau of Street Lighting completed \$660,560 worth of work on a Metro grant funded project. Per the labor cost reports, the work was conducted from August 2008 through November 2009. However, the first and only bill was not submitted to Metro until August 2010.

Caltrans' Inactive List

Five of the projects we reviewed were Caltrans projects, and the Department did not submit timely billings for any of them. Caltrans posts an "Inactive List" on their website, which details the grant funded projects that are at risk of being de-obligated because the grantee has not submitted an invoice within the six month billing cycle. If a bill is not submitted within an additional six month timeframe, (e.g., a billing is not submitted after one year), Caltrans will initiate the de-obligation process. According to the Federal Highway Administration (FHWA) guidelines, Caltrans can "de-obligate the unexpended balance."

In addition, we found that the City had a number of other projects on the Inactive List. The funding for projects may be de-obligated if billings are not submitted timely. Department staff indicated that they were not aware of any project funds which had been de-obligated, because in the absence of billing timely, they review the Inactive List and submit the invoice for the associated project.

The Department stated that the lack of accounting staff prevents them from billing on time, because the process of compiling and calculating the billings takes significant staff effort. Since each billing is very different - for example one bill might just be for labor, whereas another might just be for contractors, each bill requires a careful review to make sure the amounts are allowable and calculated correctly. There may also be some projects that have not accrued enough expenses to justify a billing.

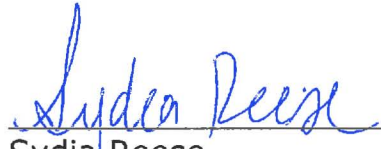
Also, the lack of a grants accounting system or effective project management system prevents the Department from having automated alerts of billing deadlines, or a streamlined method for preparing the grant billings.

The most immediate effect of the late billings is that the Department is deprived of cash flow and a loss of interest income to the City. Also, since Prop C funds are used to front-fund costs, the funding should be replenished as soon possible, so the Department can continue working on other projects. Further, if the Department does not submit billings by Grantor deadlines, it is not in compliance with Grantor guidelines, and in the case of the Caltrans grants, the funds are at risk of de-obligation.


Recommendation

- 8.1 DOT management should establish controls to ensure billings are submitted to Grantors by billing deadlines.**


Respectfully submitted,




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Internal Auditor IV



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Glossary of Key Terms

Automated Traffic Surveillance and Control (ATSAC) System is the centralized traffic control center for the City of Los Angeles. The system provides real-time monitoring and adjustment of signal timing for nearly 4,400 signalized intersections Citywide.

Call for Projects – Generally every other year, Metro accepts Call for Projects applications in eight modal categories. The Call is a competitive process that distributes discretionary capital transportation funds (from various Federal, State, and Local funding sources) to regionally significant projects. Local jurisdictions, transit operators, and other public agencies are encouraged to submit applications proposing projects for funding.

Direct Costs are all of the compensation/salary costs associated with the staff who performed work on the project. The City does not include fringe benefits in the direct cost calculation in the Cost Allocation Plan. However, most Grantors consider fringe benefits to be direct costs, if they are associated with direct labor positions.

Financial Information Management System (FMIS) was the City's previous financial accounting system of record. It was discontinued in Fiscal Year 2012.

Financial Management System (FMS) is the current City's financial accounting system of record. FMS provides four major modules (Accounts Payable, Accounts Receivable, Cost Accounting and General Ledger) and a business intelligence tool, InfoAdvantage.

Front-Funding is used when a City department pays the initial project expenditures and is subsequently reimbursed by the Grantor.

Local Return – The Local Return portion of Prop C totals 20% of the total Proposition C ½ cent sales tax collected by the County each year. Metro allocates and distributes the Local Return (LR) funds each month to the 89 Metro jurisdictions on a relative per capita basis.

Match Amounts - For some grants, applicants must propose a match amount, which supplements the award amount. The match is the remaining portion of the total funds necessary to complete an eligible project.

Rainbow Report - This report is released by Metro and contains the preliminary recommendations for the Call for Projects funding amounts to each jurisdiction.

Glossary of Key Terms

Related Costs are costs incurred that cannot be directly attributed to the staff who work on a grant funded project, but are applied as an indirect or overhead cost as a general percentage applied to direct labor costs.

Appendix I: Action Plan

Finding	Page	Recommendation	Page	Entity Responsible for Implementation	Priority
1. The Department does not utilize Prop C funds in an optimally strategic manner.	14	1.1 DOT management should work with the Office of the Mayor to identify resources to implement the Strategic Capital Planning Group, as outlined in the Department's Strategic Plan, "Great Streets for Los Angeles."	17	DOT	A
		1.2 Once the group is staffed, DOT management should support the effort to create short-term and long-term transportation capital improvement project plans that would establish funding priorities for how Prop C funding will be used.	17	DOT	A
2. The City's practice of selecting projects in an ad-hoc manner, rather than prioritized projects, and usually proposing the minimum amount in the local match category for the Call for Project grant proposals, may be decreasing the City's award approval rate. While the City constitutes 39% of the population in the County, it received only 28% of the funds available through competitive awards, in the 2009, 2011 and 2013 Call for Projects.	18	2.1 DOT management should submit Call for Projects applications that are in line with a long-term transportation capital improvement project plan.	26	DOT	B
		2.2 DOT management should formally and quantitatively analyze the scores received on the Call for Projects applications to determine which categories need improvement for future funding opportunities.	26	DOT	B

Appendix I: Action Plan

Finding	Page	Recommendation	Page	Entity Responsible for Implementation	Priority
2. The City's practice of selecting projects in an ad-hoc manner, rather than prioritized projects, and usually proposing the minimum amount in the local match category for the Call for Project grant proposals, may be decreasing the City's award approval rate. While the City constitutes 39% of the population in the County, it received only 28% of the funds available through competitive awards, in the 2009, 2011 and 2013 Call for Projects.	18	2.3 DOT management should consider reducing the number of project applications submitted and instead increase the proposed local match on projects, with the goal of obtaining more funding through Metro's Call for Projects.	26	DOT	B
		2.4 DOT management should consider prior year award results (both the dollar amount and the number of projects), as a baseline, and work to meet or exceed these results in future Call for Projects.	26	DOT	B
3. The lack of a comprehensive project management system likely contributed to cost overruns, which totaled \$4.7 million, for nine of the 12 Prop C funded projects we reviewed. #	27	3.1 DOT management should discontinue the use of AIRS and develop queries in InfoAdvantage, the reporting module within the City's Financial Management System.	35	DOT	C
		3.2 DOT management should work with the Public Works Bureaus to explore using a single work order number per project, for all departments that work on a Prop C project.	35	DOT	B

Appendix I: Action Plan

Finding	Page	Recommendation	Page	Entity Responsible for Implementation	Priority
3. The lack of a comprehensive project management system likely contributed to cost overruns, which totaled \$4.7 million, for nine of the 12 Prop C funded projects we reviewed.	27	3.3 In conjunction with the Public Works Bureaus, DOT management should formally evaluate the possibility of using UPRS to determine if it can be implemented as a permanent project management system that would meet the City's needs for managing the projects and funding sources of transportation projects.	35	DOT	A
		3.4 If it is determined that a new project management system is required, DOT management should, in conjunction with the Public Works Bureaus that work on Prop C funded projects, develop a strategy for fully implementing a comprehensive project management system.	35	DOT	A
4. The lack of timely reconciliations of the two special revenue funds that account for Proposition C funds, resulted in the inability to forecast funding needs for future projects.	36	4.1 DOT management should convene a working group of staff that work on Prop C projects, including accountants, budget staff, and Project Managers to determine the current number of active and future Prop C funded projects to forecast the amount of funding that will be needed.	40	DOT	A

Appendix I: Action Plan

Finding	Page	Recommendation	Page	Entity Responsible for Implementation	Priority
4. The lack of timely reconciliations of the two special revenue funds that account for Proposition C funds, resulted in the inability to forecast funding needs for future projects.	36	4.2 DOT management should completely reconcile the funding in Fund #655, and once it is reconciled <i>and</i> a grants accounting system is implemented, consider consolidating Fund #540 and Fund #655.	40	DOT	A
5. The City has not established clear guidelines regarding the transfer of reimbursements back to special revenue funds or the General Fund, when monies from these sources are used to finance grant funded projects.	41	5.1 DOT management should work with the Controller's Accounting Operations Division to establish clear guidelines which dictate under what circumstances cash balances representing grant reimbursements for direct and related costs should be transferred to the General Fund and Fund #540, respectively.	44	DOT	B
6. The Department's grants accounting system relies primarily on manual processes and ad-hoc reports.	45	6.1 DOT management should work with the Controller's Office and other appropriate parties to explore the possibility of purchasing a grants accounting module.	48	DOT	A

Appendix I: Action Plan

Finding	Page	Recommendation	Page	Entity Responsible for Implementation	Priority
7. DOT does not always record financial transactions accurately or consistently.	49	7.1 The Controller's Accounting Operations Division should develop clear guidelines (consistent with Generally Accepted Accounting Principles) for posting common transactions, such as transfers of interest from one fund to another and how to record grants receivables.	53	Controller	A
		7.2 The Controller's Office should ensure appropriate accounting postings, and should notify Council in those situations where a Council File directs the Department or Controller to post a transaction that is not consistent with the guidelines.	53	Controller	B
		7.3 DOT management should review the appropriation balances comprising the high uncommitted balances in FMS to determine those that should be canceled or modified.	53	DOT	B
8. DOT does not submit claims to Grantors in accordance with billing cycles, which deprives the Department of cash flow.	54	8.1 DOT management should establish controls to ensure billings are submitted to Grantors by billing deadlines.	55	DOT	B

Appendix I: Action Plan

Description of Recommendation Ranking Codes

A – High Priority: The recommendation pertains to a serious or materially significant audit finding or control weakness. Due to the seriousness or significance of the matter, immediate management attention and appropriate corrective action is warranted.

B – Medium Priority: The recommendation pertains to a moderately significant or potentially serious audit finding or control weakness. Reasonably prompt corrective action should be taken by management to address the matter. The recommendation should be implemented within six months.

C – Low Priority: The recommendation pertains to an audit finding or control weakness of relatively minor significance or concern. The timing of any corrective action is left to management's discretion.

N/A- Not Applicable

Appendix II: Financial Scorecard

Finding/Recommendation	Page	Category	Financial Impacts
<p>Finding No. 3:</p> <p>The lack of a comprehensive project management system likely contributed to cost overruns, which totaled \$4.7 million, for nine of the 12 Prop C funded projects we reviewed.</p> <p>Recommendation 3.3:</p> <p>Develop a timeline for either purchasing a comprehensive project management system or developing an in-house system that would meet the City's needs for managing the projects and funding sources of transportation projects.</p>	<p>27</p> <p>35</p>	Cost Avoidance	<p>\$4.7 million in Prop C project cost overruns for 9 projects reviewed. The timeframe for each project varied from five to eleven years.</p>
<p>Finding No. 8:</p> <p>DOT does not submit claims to Grantors in accordance with billing cycles, which deprives the Department of cash flow.</p> <p>Recommendation 8.1:</p> <p>DOT management should establish controls to ensure billings are submitted to Grantors by billing deadlines.</p>	<p>54</p> <p>55</p>	Process Deficiencies	<p>Untimely billings of \$2.6 million to Grantors for reimbursements deprived the Department of cash flow.</p>

Cost Recovery: Monies that may be recoverable in the future by implementing recommendation(s).

Cost Savings: Cost savings opportunity and process enhancement by implementing recommendation(s).

Cost Avoidance: Monies that are lost but are avoidable in the future by implementing recommendation(s).

Increased Revenue: Revenue opportunities by implementing recommendation(s).

Appendix II: Financial Scorecard

Process Deficiencies- Due to the lack of adherence to proper operational guidelines and processes, monies were inadequately managed or categorized. Implementing recommendations will improve Fund management, making additional cash available.

Wasted Funds: Monies that are lost and not recoverable due to reckless act or mismanagement of funds.

Disclaimer: We strive to identify and recommend actions that will result in real financial impact, whereby the City can achieve significantly more through cost savings and/or increased revenue than the cost of the audit function. The above dollar estimates are dependent upon various factors, such as full implementation of audit recommendations and should not be used as guaranteed recovery/savings/avoidance/revenue amounts.

Appendix III: Scope and Methodology

This audit was conducted to determine whether the City obtains needed Prop C revenues, and whether it spends it well to implement transit projects in Los Angeles.

We examined the City processes to ensure it obtains and utilizes all available Prop C funds, including whether the City's General Fund is adequately reimbursed for expenses funded by Prop C Projects. In order to evaluate these processes and procedures, we reviewed activities related to sources and uses of Proposition C funds by the City for the period July 1, 2011 through March 31, 2014.

To accomplish these audit objectives, we performed the following procedures:

- Interviewed DOT management, budget, accounting and engineering staff to obtain an understanding of how the City obtains, applies for, accounts for and utilizes Prop C funds.
- Tested a sample of 12 projects that used Prop C funding as the match or as front-funds to determine the initial budget amount and to compare to the final costs.
- Tested a sample of billings to determine if the billings were submitted in accordance with the Grantors timelines.
- Reviewed financial reports, including the expenditure, revenue, condition of appropriation, and cash balance reports for Fund #655 and Fund #540.
- Benchmarked with other cities in Los Angeles County, the amount of Call for Projects dollars awarded in relation to population sizes.

This audit was performed in accordance with Generally Accepted Government Auditing Standards. 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 the evidence obtained provides reasonable basis for our findings and conclusions based on our audit objectives.

Audit fieldwork was primarily conducted from March through June 2014 and generally covered activities over a six year period through March 31, 2014.

Appendix IV: Benchmarking - I

2009, 2011 and 2013 Call for Projects Awards by City Number of Projects and Award Amounts Comparison

This table shows how many projects and how much money each jurisdiction was awarded as part of the 2009, 2011 and 2013 Call for Projects. We found that the City was awarded the most amount of money, for the most number of projects in each of the three cycles. This is not surprising since the City's population is nearly four times as high as the second most populous jurisdiction, the County.

Overall, the City is generally awarded funding which is in line with the number of projects awarded. For example, when we averaged the award amounts and number of projects for the three Call cycles, we found that on average 25% of the projects are located within the City and 28% of the funding is awarded to the City. This indicates that in general, the funding is spread among an equal number of projects, and there is not necessarily a concentration of funding on large projects.

Note that of the 89 jurisdictions, 56 received funding for at least one of the three Call years. Only 14 jurisdictions were awarded funding in all three years, meaning that 42 received funding in one or two years but not all three.

City	2009				2011				2013			
	# of Projects	% of Projects Awarded	\$'s Awarded	% of \$'s Awarded	# of Projects	% of Projects Awarded	\$'s Awarded	% of \$'s Awarded	# of Projects	% of Projects Awarded	\$'s Awarded	% of \$'s Awarded
Alhambra									1	1.04%	\$ 664,756	0.33%
Arcadia	3	2.22%	\$2,532,594	0.75%					1	1.04%	\$1,156,547	0.58%
Avalon									1	1.04%	\$1,020,780	0.51%
Azusa	2	1.48%	\$4,189,190	1.24%	1	1.41%	\$3,507,490	2.84%				
Baldwin Park	2	1.48%	\$669,437	0.20%					1	1.04%	\$1,150,481	0.58%
Bell									1	1.04%	\$2,220,304	1.11%
Bell Gardens									1	1.04%	\$2,200,182	1.10%
Burbank	1	0.74%	\$1,019,424	0.30%	3	4.23%	\$1,933,609	1.57%	2	2.08%	\$4,783,222	2.40%
Calabasas									2	2.08%	\$655,418	0.33%
Carson	1	0.74%	\$6,770,950	2.01%					1	1.04%	\$528,638	0.27%
Commerce					1	1.41%	\$538,210	0.44%	1	1.04%	\$687,753	0.34%
Covina					1	1.41%	\$ 827,437	0.67%				
Culver City	4	2.96%	\$9,511,568	2.82%	2	2.82%	\$1,512,488	1.22%	3	3.13%	\$5,813,216	2.92%
Diamond Bar									1	1.04%	\$1,406,860	0.71%

Appendix IV: Benchmarking - I

2009, 2011 and 2013 Call for Projects Awards by City

Number of Projects and Award Amounts Comparison

City	2009				2011				2013			
	# of Projects	% of Projects Awarded	\$'s Awarded	% of \$'s Awarded	# of Projects	% of Projects Awarded	\$'s Awarded	% of \$'s Awarded	# of Projects	% of Projects Awarded	\$'s Awarded	% of \$'s Awarded
Downey	3	2.22%	\$5,400,719	1.60%	1	1.41%	\$2,787,069	2.26%	2	2.08%	\$3,209,275	1.61%
Duarte					1	1.41%	\$533,519	0.43%				
El Monte					2	2.82%	\$1,884,157	1.53%	2	2.08%	\$2,437,981	1.22%
Gardena	2	1.48%	\$2,333,918	0.69%					1	1.04%	\$2,144,700	1.08%
Glendale	4	2.96%	\$5,603,215	1.66%	2	2.82%	\$3,113,038	2.52%	3	3.13%	\$3,275,884	1.64%
Hawthorne	1	0.74%	\$2,916,101	0.86%	1	1.41%	\$3,848,801	3.12%	1	1.04%	\$2,588,896	1.30%
Huntington Park	1	0.74%	\$2,676,000	0.79%					2	2.08%	\$1,482,901	0.74%
Industry	2	1.48%	\$9,554,225	2.83%	1	1.41%	\$6,727,566	5.45%	1	1.04%	\$9,447,781	4.74%
Inglewood	2	1.48%	\$5,274,455	1.56%	1	1.41%	\$995,798	0.81%	1	1.04%	\$1,534,390	0.77%
La Canada Flintridge					1	1.41%	\$1,365,505	1.11%	1	1.04%	\$343,497	0.17%
Lakewood	1	0.74%	\$1,067,895	0.32%								
Lancaster	3	2.22%	\$4,127,728	1.22%	3	4.23%	\$2,430,084	1.97%				
La Verne									1	1.04%	\$1,122,466	0.56%
Lawndale									1	1.04%	\$186,842	0.09%
Long Beach	7	5.19%	\$18,308,813	5.42%	4	5.63%	\$6,986,568	5.66%	9	9.38%	\$22,788,484	11.43%
Los Angeles	43	31.85%	\$99,047,877	29.34%	16	22.54%	\$38,294,479	31.00%	17	17.71%	\$46,344,053	23.24%
LA County/ Unincorporated Areas	11	8.15%	\$74,963,134	22.21%	13	18.31%	\$24,551,128	19.88%	15	15.63%	\$32,647,045	16.37%
Lynwood									1	1.04%	\$2,595,771	1.30%
Malibu					1	1.41%	\$257,702	0.21%				
Manhattan Beach	1	0.74%	\$6,813,325	2.02%								
Monterey Park									1	1.04%	\$1,230,722	0.62%
Norwalk	2	1.48%	\$1,324,528	0.39%								
Palmdale	2	1.48%	\$7,045,743	2.09%					1	1.04%	\$4,874,248	2.44%

Appendix IV: Benchmarking - I

2009, 2011 and 2013 Call for Projects Awards by City Number of Projects and Award Amounts Comparison

City	2009				2011				2013			
	# of Projects	% of Projects Awarded	\$'s Awarded	% of \$'s Awarded	# of Projects	% of Projects Awarded	\$'s Awarded	% of \$'s Awarded	# of Projects	% of Projects Awarded	\$'s Awarded	% of \$'s Awarded
Pasadena	10	7.41%	\$4,896,838	4.41%	2	2.82%	\$3,238,749	2.62%	3	3.13%	\$4,926,960	2.47%
Pico Rivera	1	0.74%	\$316,333	0.09%					1	1.04%	\$2,308,939	1.16%
Redondo Beach	3	2.22%	\$5,270,158	1.56%	1	1.41%	\$1,221,586	0.99%	1	1.04%	\$1,562,100	0.78%
Rosemead					1	1.41%	\$780,793	0.63%	1	1.04%	\$923,721	0.46%
San Dimas	1	0.74%	\$1,338,568	0.40%								
San Fernando	3	2.22%	\$6,080,610	1.80%								
San Gabriel					1	1.41%	\$538,307	0.44%				
San Marino									1	1.04%	\$939,435	0.47%
Santa Clarita	5	3.70%	\$9,264,920	2.74%	3	4.23%	\$6,034,155	4.89%	3	3.13%	\$10,651,259	5.34%
Santa Fe Springs	1	0.74%	\$2,170,763	0.64%								
Santa Monica	5	3.70%	\$9,749,245	2.89%	3	4.23%	\$4,505,607	3.65%	4	4.17%	\$5,369,653	2.69%
Signal Hill					1	1.41%	\$127,817	0.10%				
So. El Monte					1	1.41%	\$484,905	0.39%				
South Gate	1	0.74%	\$9,423,792	2.79%					2	2.08%	\$2,798,476	1.40%
So. Pasadena					1	1.41%	\$463,600	0.38%				
Temple City					1	1.41%	\$2,249,984	1.82%	3	3.13%	\$6,907,974	3.46%
Torrance	3	2.22%	\$4,924,868	1.46%	1	1.41%	\$1,775,851	1.44%				
West Hollywood	2	1.48%	\$967,600	0.29%								
Whittier	2	1.48%	\$1,996,640	0.59%					1	1.04%	\$2,458,390	1.23%
Total	135	100%	\$337,551,174	100%	71	100%	\$123,516,002	100%	96	100%	199,390,000	100%

Appendix V: Benchmarking - II

2009, 2011 and 2013 Call for Projects Awards Award Amounts and Population Percentage Comparisons

This table shows how much each jurisdiction was awarded as part of the 2009, 2011 and 2013 Call for Projects, in relation to their population. For example, in 2009, Long Beach was awarded \$18.3 million, which represented 5.42% of the total amount awarded of \$337.6 million, while 4.74% of the County's population (which includes 88 cities plus Los Angeles County) resided in Long Beach. Their dollars awarded versus population ratio was 14.4% $((5.42\% - 4.74\%) / 4.74\%)$. Positive ratios mean that the city was awarded more than their proportional share of dollars in relation to their population, while negative ratios mean that the city was awarded less than their proportional share of dollars.

The City of Los Angeles' ratio was -25% for 2009, -21% for 2011, and -40% for 2013, which means that for each of these funding cycles, it received less in comparison to their population percentage. In 2009, the City ranked 27th out of 33 cities, 27th out of 29 in 2011 and 36th out of 39 in 2013.

City	2009				2011				2013			
	Amount Awarded	% Awarded	% of County Population	\$ vs. Pop Ratio	Amount Awarded	% Awarded	% of County Population	\$ vs. Population Ratio	Amount Awarded	% Awarded	% of County Population	\$ vs. Population Ratio
Alhambra									\$664,756	0.33%	0.846%	-60.59%
Arcadia	\$2,532,594	0.75%	0.544%	37.9%					\$1,156,547	0.58%	0.571%	1.57%
Avalon									\$1,020,780	0.51%	0.038%	1243.7%
Azusa	\$4,189,190	1.24%	0.471%	163.6%	\$3,507,490	2.84%	0.471%	502.6%				
Baldwin Park	\$669,437	0.20%	0.784%	-74.7%					\$1,150,481	0.58%	0.766%	-24.71%
Bell									\$2,220,304	1.11%	0.359%	209.92%
Bell Gardens									\$2,200,182	1.10%	0.426%	158.91%
Burbank	\$1,019,424	0.30%	1.040%	-71.0%	\$1,933,609	1.57%	1.039%	50.7%	\$4,783,222	2.40%	1.054%	127.56%
Calabasas									\$655,418	0.33%	0.239%	37.54%
Carson	\$6,770,950	2.01%	0.945%	112.4%					\$528,638	0.27%	0.926%	-71.36%
Commerce					\$538,210	0.44%	0.130%	235.0%	\$687,753	0.34%	0.130%	165.53%
Covina					\$827,437	0.67%	0.475%	41.0%				
Culver City	\$9,511,568	2.82%	0.391%	620.3%	\$1,512,488	1.22%	0.390%	214.0%	\$5,813,216	2.92%	0.394%	640.35%
Diamond Bar									\$1,406,860	0.71%	0.563%	25.24%
Downey	\$5,400,719	1.60%	1.092%	46.5%	\$2,787,069	2.26%	1.089%	107.2%	\$3,209,275	1.61%	1.132%	42.14%
Duarte					\$533,519	0.43%	0.221%	95.0%				
El Monte					\$1,884,157	1.53%	1.211%	25.9%	\$2,437,981	1.22%	1.149%	6.40%

Appendix V: Benchmarking - II

2009, 2011 and 2013 Call for Projects Awards

Award Amounts and Population Percentage Comparisons

City	2009				2012				2013			
	Amount Awarded	% Awarded	% of County Population	\$ vs. Pop Ratio	Amount Awarded	% Awarded	% of County Population	\$ vs. Population Ratio	Amount Awarded	% Awarded	% of County Population	\$ vs. Population Ratio
Gardena	\$2,333,918	0.69%	0.595%	16.3%					\$2,144,700	1.08%	0.598%	79.81%
Glendale	\$5,603,215	1.66%	1.995%	-16.8%	\$3,113,038	2.52%	1.991%	26.6%	\$3,275,884	1.64%	1.945%	-15.52%
Hawthorne	\$2,916,101	0.86%	0.866%	-0.2%	\$3,848,801	3.12%	0.863%	260.9%	\$2,588,896	1.30%	0.858%	51.28%
Huntington Park	\$2,676,000	0.79%	0.622%	27.5%					\$1,482,901	0.74%	0.589%	26.33%
Industry	\$9,554,225	2.83%	0.008%	36659.1%	\$6,727,566	5.45%	0.008%	70728.6%	\$9,447,781	4.74%	0.004%	107589.6%
Inglewood	\$5,274,455	1.56%	1.144%	36.6%	\$995,798	0.81%	1.140%	-29.3%	\$1,534,390	0.77%	1.116%	-31.07%
La Canada Flintridge					\$1,365,505	1.11%	0.204%	442.9%	\$343,497	0.17%	0.205%	-16.09%
Lakewood	\$1,067,895	0.32%	0.804%	-60.6%								
Lancaster	\$4,127,728	1.22%	1.396%	-12.4%	\$2,430,084	1.97%	1.397%	40.8%				
La Verne									\$1,122,466	0.56%	0.322%	74.94%
Lawndale									\$186,842	0.09%	0.332%	-71.78%
Long Beach	\$18,308,813	5.42%	4.740%	14.4%	\$6,986,568	5.66%	4.738%	19.4%	\$22,788,484	11.43%	4.691%	143.64%
Los Angeles	\$99,047,877	29.34%	39.118%	-25.0%	\$38,294,479	31.00%	39.217%	-20.9%	\$46,344,053	23.24%	38.800%	-40.10%
LA County/ Unincorporated Areas	\$74,963,134	22.21%	10.507%	111.4%	\$24,551,128	19.88%	10.490%	89.5%	\$32,647,045	16.37%	10.447%	56.73%
Lynwood									\$2,595,771	1.30%	0.709%	83.52%
Malibu					\$257,702	0.21%	1.318%	-84.2%				
Manhattan Beach	\$6,813,325	2.02%	0.353%	471.3%								
Monterey Park									\$1,230,722	0.62%	0.617%	0.04%
Norwalk	\$1,324,528	0.39%	1.054%	-62.8%								
Palmdale	\$7,045,743	2.09%	1.456%	43.3%					\$4,874,248	2.44%	1.552%	57.52%
Pasadena	\$14,896,838	4.41%	1.445%	205.4%	\$3,238,749	2.62%	1.452%	80.6%	\$4,926,960	2.47%	1.406%	75.74%
Pico Rivera	\$316,333	0.09%	0.644%	-85.4%					\$2,308,939	1.16%	0.638%	81.50%
Redondo Beach	\$5,270,158	1.56%	0.651%	139.9%	\$1,221,586	0.99%	0.652%	51.6%	\$1,562,100	0.78%	0.677%	15.76%
Rosemead					\$780,793	0.63%	0.553%	14.3%	\$923,721	0.46%	0.547%	-15.29%
San Dimas	\$1,338,568	0.40%	0.355%	11.8%								
San Fernando	\$6,080,610	1.80%	0.243%	640.1%								

Appendix V: Benchmarking - II

2009, 2011 and 2013 Call for Projects Awards Award Amounts and Population Percentage Comparisons

City	2009				2012				2013			
	Amount Awarded	% Awarded	% of County Population	\$ vs. Pop Ratio	Amount Awarded	% Awarded	% of County Population	\$ vs. Population Ratio	Amount Awarded	% Awarded	% of County Population	\$ vs. Population Ratio
San Gabriel					\$538,307	0.44%	0.412%	5.9%				
San Marino									\$939,435	0.47%	0.133%	254.25%
Santa Clarita	\$9,264,920	2.74%	1.705%	61.0%	\$6,034,155	4.89%	1.701%	187.1%	\$10,651,259	5.34%	2.058%	159.56%
Santa Fe Springs	\$2,170,763	0.64%	0.171%	275.9%								
Santa Monica	\$9,749,245	2.89%	0.890%	224.6%	\$4,505,607	3.65%	0.888%	310.8%	\$5,369,653	2.69%	0.914%	194.58%
Signal Hill					\$127,817	0.10%	0.110%	-5.8%				
So. El Monte					\$484,905	0.39%	0.217%	81.2%				
South Gate	\$9,423,792	2.79%	0.999%	179.5%					\$2,798,476	1.40%	0.995%	41.03%
So. Pasadena					\$463,600	0.38%	0.248%	51.4%				
Temple City					\$2,249,984	1.82%	0.344%	429.9%	\$6,907,974	3.46%	0.361%	859.71%
Torrance	\$4,924,868	1.46%	1.435%	1.7%	\$1,775,851	1.44%	1.434%	0.3%				
West Hollywood	\$967,600	0.29%	0.362%	-20.7%								
Whittier	\$1,996,640	0.59%	0.835%	-29.2%					\$2,458,390	1.23%	0.865%	42.60%
Total	\$337,551,174	100.0%	79.656%		\$123,516,002	100.0%	74.404%		\$199,390,000	100.0%	79.975%	

Source: Metro's website, Call for Projects 2009, 2011 and 2013 Award Documents http://www.metro.net/projects/call_projects/

Appendix VI: Metro's Technical Advisory Committee Membership

Technical Advisory Committee Membership		
	ENTITY	# of MEMBERS
1	City of Los Angeles	3
2	County of Los Angeles	3
3	League of Cities	8
4	Caltrans	2
5	Metro Operations	1
6	Bus Operations Sub-committee	2
7	City of Long Beach	1
8	Local Transit Systems Sub-committee	2
9	Metro Chief Executive Officer or Alternate	1
10	Citizen Representative on ADA Issues	1
11	Southern California Regional Rail Authority	*1
12	Southern California Association of Government	*1
13	Southern California Air Quality Management District	*1
14	Southern California Automobile Club	1
15	California Highway Patrol	1
16	Goods Movement Representative	*1
17	Transportation Demand Management/Air Quality Sub-committee	2
	Total	32
	32 members, 28 voting members *ex-officio (non-voting) member	


Appendix VII: Department's Response

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See next page

CITY OF LOS ANGELES
INTER-DEPARTMENTAL MEMORANDUM

Date: November 24, 2014

To: Farid Saffar, Director of Auditing
Office of the Controller
Attention: Ricky Deguchi, Chief Internal Auditor

From:  Seleta J. Reynolds, General Manager
Department of Transportation

Subject: **DEPARTMENT OF TRANSPORTATION ACTION PLAN-IMPLEMENTING "PROPOSITION C: FUNDING THE CITY'S TRANSPORTATION PRIORITIES" AUDIT REPORT RECOMMENDATIONS**

This correspondence responds to your October 31, 2014 letter that transmitted the final draft report titled "Proposition C: Funding the City's Transportation Priorities" to the Department of Transportation. Your transmittal letter requested that this Department provide a formal response describing the planned actions the Department will take to implement the audit report's recommendations.

The Department's action plan for each recommendation is described below.

Recommendation 1.1. DOT management should work with the Office of the Mayor to identify resources to implement the Strategic Capital Planning Group, as outlined in the Department's Strategic Plan, "Great Streets for Los Angeles."

The Department has prepared and will submit a budget proposal for the Fiscal Year (FY) 2015-2016 Budget to begin the process of creating a Strategic Planning Group. The mission of the Strategic Capital Planning Group will be to identify short-term and long-term priority programs and projects; identify funding sources to implement priority programs and projects; and assist with the coordination and implementation of Great Streets for Los Angeles.

The budget package proposes funding for two additional positions. If these positions are approved, the Department anticipates filling these positions in the second quarter of FY 2015-2016. The Department also anticipates requesting additional staff in the FY 2016-2017 budget.

Implementation is dependent upon the Department securing additional staffing resources. Given the Department's current and expected work programs, current staffing level cannot absorb the workload of the Strategic Capital Planning Group.

Recommendation 1.2. Once the Strategic Capital Planning Group is staffed, DOT management should support the effort to create short-term and long-term transportation capital improvement plans that would establish funding priorities for how Prop C funding will be used.

DOT management in connection with all stakeholders will support the Strategic Capital Planning Group efforts to create, implement, monitor, and revise short-term and long-term transportation capital

improvement plans to establish funding priorities for how Proposition C as well as other transportation-related funding from Proposition A, Measure R, and other sources will be used.

Recommendation 2.1. DOT management should submit Call for Projects applications that are in line with a long-term transportation capital improvement project plan.

DOT management has already begun to implement this recommendation. The City has recently launched the 2015 Metro Call for Projects process that will be coordinated by the Department of Transportation. Through the consensus of the Interdepartmental Task Force, comprised of representatives from the Mayor's Office, the Office of the Chief Legislative Analyst, all council offices, and various City departments, criteria has been established to ensure that potential new projects considered for the 2015 Call will be consistent with the City goals and priorities.

These goals and priorities include DOT's new Strategic Plan, the soon to be adopted Mobility Element of the General Plan, the Mayor's Great Streets Initiative, and the Complete Streets Act. Furthermore, while DOT is coordinating the City's application for the 2015 Metro Call for Projects, funding applications are prepared by several City departments that include the Bureau of Engineering (BOE), Bureau of Street Services (BSS), Bureau of Street Lighting (BSL), and the Port of Los Angeles, in addition to DOT.

Recommendation 2.2. DOT management should formally and quantitatively analyze the scores received on the Call for Projects applications to determine which categories need improvement for future funding opportunities.

While the Department does analyze the scores received on Call for Projects applications, the process by which the results of this analysis is disseminated can be improved upon. One of the tasks of the Strategic Capital Planning Group will be to disseminate the analysis of Call for Project applications to City stakeholders.

Recommendation 2.3. DOT management should consider reducing the number of project applications submitted and instead increase the proposed local match on projects, with the goal of obtaining more funding through Metro's Call for Projects.

The Department has already taken action to implement this recommendation. The City's Interdepartmental Task Force for the 2015 Metro Call for Projects has approved DOT's recommendation to reduce the number of project applications to ensure that quality projects advance to the application phase.

While DOT is coordinating the City's application process for the 2015 Metro Call for Projects, it does not have the authority to unilaterally mandate that the amount of local matches be increased. As the lead department for the Call for Projects, DOT is developing a recommendation to the Interdepartmental Task Force to determine if it is in the best interest of the City to change the past practice of providing the minimum local match provided to each project.

In its recommendation to the Interdepartmental Task Force, the Department is developing a methodology as to which projects should have increased match amounts. The Department recognizes that the purpose of this audit recommendation is not to implement an across-the-board increase of all local matches, but to obtain more funding through the Metro's Call for Projects. The Department does not want to increase local matches for projects that are already extremely competitive. The

Department, however, does want to increase local matches that transform competitive projects into extremely competitive projects because of the increased local match.

Recommendation 2.4. DOT Management should consider prior year award results (both the dollar amount and the number of projects), as a baseline, and work to meet or exceed these results in future Call for Projects.

DOT Management supports the use of performance measures to measure the City's effectiveness in competing in the Metro Call for Projects as well as other transportation-related grant programs. DOT will work with Interdepartmental Task Force of the 2015 Metro Call for Projects as well as with other stakeholders to develop meaningful performance measures. The Department, however, believes that the proposed metrics are absolute numbers that do not account for such factors as the amount of funding available for each Call cycle as well as the number of City applications submitted.

Recommendation 3.1. DOT management should discontinue the use of AIRS and develop queries in InfoAdvantage, the reporting module within the City's Financial Management System.

DOT Management is taking steps to discontinue the use of AIRS and for its accounting staff to utilize InfoAdvantage. DOT Management realizes that AIRS is an internal accounting system while InfoAdvantage is used citywide. Use of InfoAdvantage makes DOT accounting staff more competitive for promotional opportunities outside the DOT. Use of InfoAdvantage also reduces the learning curve for accounting professionals coming to DOT from other City departments.

Recommendation 3.2. DOT management should work with the Public Works Bureaus to explore using a single work order number per project, for all departments that work on a Prop C project.

DOT will discuss this recommendation with the Bureaus of Contract Administration, BOE, BSL and BSS in the spring of 2015. If the Public Works Bureaus are agreeable, DOT believes that a process can be implemented and in place by July 1, 2015.

Recommendation 3.3. In conjunction with the Public Works Bureaus, DOT management should formally evaluate the possibility of using the Uniform Project Reporting System (UPRS) to determine if it can be implemented as a permanent project management system that would meet the City's needs for managing the projects and funding sources of transportation projects.

The Department is currently working with the BOE to assess whether the UPRS system can be used as the Department's project management tool. Additionally, the Department's strategic plan has also identified the need for a project management tool and has identified this as one of its goals.

Recommendation 3.4. If it is determined that a new project management system is required, DOT management should, in conjunction with the Public Works Bureaus that work on Prop C funded projects, develop a strategy for fully implementing a comprehensive project management system.

The Department has not developed an action plan for this recommendation. If the Department's assessment of UPRS indicates that it cannot be implemented as a permanent project management system, it will begin to develop an action plan to implement this recommendation.

Recommendation 4.1. DOT management should convene a working group of staff that works on Prop C projects, including accountants, budget staff, and Project Managers to determine the current number of active and future Prop C funded projects to forecast the amount of funding that will be needed.

The Department will reach out to other City departments and bureaus that utilize Proposition C funds for their projects to determine the best approach on how to determine the current active projects. The projects that utilize Proposition C funds as the local match for grant-funded projects (i.e. TG Projects), are only a portion of the overall City projects that utilize Proposition C funds.

Recommendation 4.2. DOT management should completely reconcile the funding in Fund #655, and once it is reconciled and a grants accounting system is implemented, consider consolidating Fund #540 and Fund #655.

The Department has moved forward in reconciling the Transportation Grant fund. The reconciliation requires the analysis of each project account. The reconciliation process includes the analysis of council recommendations that transferred front and match funding, billings and reimbursements received pertain to the project, the amount reimbursed to the original funding sources over the years, coordination with project managers to determine whether there are outstanding invoices to the vendors and contractors, retrieval of labor cost reports for DOT and various Public Works Bureaus, and the analysis and determination of the expenditures for the project.

The efforts and time needed for each review are substantial and labor intensive. In addition, the reconciliation process requires employees possessing the skill set at the level of a senior accountant. This office has one senior accountant assigned to the Transportation Grant Fund and this employee started the review process. Although the review has started, progress has been slow due to frequent interruptions and the need to perform necessary day to day operations that include ensuring the timely payments to the vendors and process billings to the grantors.

The Department has requested additional staffing in the FY 2015-2016 budget package to implement this recommendation. The Department's ultimate goal in implementing this recommendation is to provide the true financial picture for both the Transportation Grant Fund and the individual projects, assist City management in making budget decisions, and to identify additional funding required to support DOT's Strategic Plan and the Mayor's Great Street Initiative.

After the reconciliation, the Department will make a recommendation as to whether or not the Transportation Grant Fund should be consolidated into Proposition C. At this time, the Department foresees the following issues of consolidating the Transportation Grant Fund into Proposition C:

- The Transportation Grant Fund receives match fronts and provides front funding from other funding sources such as Proposition A, the Special Parking Revenue Fund, Measure R, various Mitigation funds, and council district office funds. These project accounts and the match fund should not be commingled with Proposition C.
- Individual project accounts need to be programmed each year based on the estimated annual cash outflow/expenditures for City staff direct cost, construction, materials and equipment costs. The Proposition C budget schedule may easily grow to be over 200 budget lines.

- Individual project manager forecasts of the yearly cash flow for each active project are critical to the budget process. An over-estimation of cash requirements will tie up Proposition C cash resources for years. Under-estimation of cash requirements will create issues concerning insufficient appropriations that may result in the delay of payments to vendors and project delivery.
- A supplemental schedule may be needed to outline the estimated annual staff direct cost for each project. This schedule will serve as a basis for moving appropriations from the project accounts to departmental budget accounts.
- The project budget cannot be controlled thru the appropriation account as it is established each year based on the need of cash flow. The overall project budget appropriation cannot be easily identified in the Proposition C budget schedule. The project cost overruns cannot be monitored thru the appropriation budget control.

Recommendation 5.1. DOT management should work with the Controller's Accounting Operations Division to establish clear guidelines which dictate under what circumstances cash balances representing grant reimbursements for direct and related costs should be transferred to the General Fund and Fund #540 respectively.

The DOT is eager to work with the Controller's Office to establish clear guidelines.

Recommendation 6.1. DOT Management should work with the Controller's Office and other appropriate parties to explore the possibility of purchasing a grants accounting module.

The DOT is eager to work with the Controller's Office to purchase a grants accounting module.

Recommendation 7.1. The Controller's Accounting Operations Division should develop clear guidelines (which are consistent with generally accepted accounting principles) for posting common transactions, such as transfers of interest from one fund to another and how to record Grants Receivables.

This recommendation is outside the purview of the DOT.

Recommendation 7.2. The Controller's Office should ensure appropriate accounting postings, and should notify Council in those situations where a Council File directs the Department or Controller to post a transaction that is not consistent with the guidelines.

This recommendation is outside the purview of the DOT.

Recommendation 7.3. DOT management should review the appropriation balances comprising the high uncommitted balances in FMS to determine those that should be canceled or modified.

The DOT has moved forward in reviewing the high uncommitted balances in the approximately 1,200 appropriation accounts within the Transportation Grant Fund. The high uncommitted balances cannot be decreased until after a thorough review of the project. The review process includes: the analysis of council recommendations that transferred front and match funding, billings and reimbursements received pertain to the project, the amount reimbursed to the original funding sources over the years,

coordination with project managers to determine whether there are outstanding invoices to the vendors and contractors, retrieval of labor cost reports for DOT and various Public Works Bureaus, the and analysis and determination of the expenditures for the project.

The efforts and time needed for each review are substantial and require the skill set at the level of a senior accountant. One senior accountant is assigned to the Transportation Grant Fund and the review process has begun. Although the review has started, the progress is very limited and often interrupted by the need to carry out the day to day operations. The Department has requested additional staffing in the FY 2015-2016 budget package to implement this recommendation. The Department's goal is for accounting to provide the true financial picture, assist management in budget decisions and identify additional funding to support DOT's Strategic Plan and the Mayor's Great Street Initiative.

Recommendation 8.1. DOT management should establish controls to ensure billings are submitted to Grantors by billing deadlines.

The audit recommendation is significantly different than the audit finding. The audit finding states that DOT does not submit claims to grantors in accordance with billing cycles, which deprives the Department of cash flow. The finding suggests that the Department does not bill as often as it should. The frequency of billing grantors is contingent upon the staff available to prepare the billing. The DOT requested additional staff to perform accounting functions, including billing grantors, in the FY 2014-2015 Budget. This request was not funded. For the FY 2015-2016, the Department has also requested two accountant II positions whose duties will include preparing billings.

Meanwhile the Audit Recommendation suggests that the Department has not submitted all the City eligible billings to the grantor before the grant has closed. The Department believes that it already has sufficient controls in place to ensure that grantors are invoiced for all eligible costs before the grant closes.

If you have further questions concerning the Department's plan, please contact Will Halverson of my staff at (213) 972-5957.

SJR:SH:wdh

Attachment

c: Will Halverson