

# TRANSMITTAL

To:

**THE COUNCIL**

Date: 04/28/2016

From:

**THE MAYOR**

**TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.**



(Ana Guerrero)

**ERIC GARCETTI**  
Mayor

# CITY OF LOS ANGELES

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## OFFICE OF THE BOARD OF PUBLIC WORKS

FERNANDO CAMPOS  
EXECUTIVE OFFICER

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April 25, 2016

# 1 BPW OOA

Mayor Eric Garcetti  
Room No. 305  
City Hall  
Attn: Mandy Morales

Subject: SEWER CONSTRUCTION AND MAINTENANCE FUND AUDITED  
FINANCIAL STATEMENTS FOR FISCAL YEAR ENDING JUNE 30, 2015

As recommended in the accompanying report of the Director of the Office of Accounting, which this Board has adopted, the Board of Public Works requests approval and forwarding to the City Council requesting to receive and file the audited financial statements of the Sewer Construction and Maintenance Fund (SCM) for Fiscal Year ending June 30, 2015, for the reasons stated in the said report.

### FISCAL IMPACT

Collectability of the interfund receivable will impact the City's General Fund by an estimated \$8.73 million for each budget fiscal year for the next four years to pay off the \$34.9 million interfund receivable of SCM.

Respectfully submitted,

Fernando Campos, Executive Officer  
Board of Public Works

FC:mp

DEPARTMENT OF PUBLIC WORKS

BOARD OF PUBLIC WORKS  
OFFICE OF ACCOUNTING  
Report No. 1

April 25, 2016

CD: All

**SUBJECT: SEWER CONSTRUCTION AND MAINTENANCE FUND (SCM)  
AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDING  
JUNE 30, 2015**

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**RECOMMENDATION**

That the Board of Public Works:

Approve and forward this report and exhibits to the Mayor and Los Angeles City Council requesting to receive and file the audited financial statements of the Sewer Construction and Maintenance Fund for Fiscal Year ending June 30, 2015.

**EXHIBITS (TRANSMITTALS)**

- A. FY 2014-15 Audited Financial Statements and Required Supplementary Information
- B. FY 2014-15 Debt Service Compliance Report
- C. Simplified Interfund Receivable Work Flowchart - BOS
- D. Controller's GAAP Directive No. 144

**DISCUSSION**

**Background** – Pursuant to Los Angeles City Charter Section 362, the City requires the services of an independent auditor to conduct financial audits of the City's financial statements. In June of 2014, the City has contracted with Macias, Gini and O'Connell, LLP (MGO), under contract no. C-124148, to conduct financial audits of the City's financial statements for fiscal years ending June 30, 2014, 2015 and 2016. The City's SCM Fund, being an enterprise fund which operates similar to Proprietary departments, prepares its own financial statements, subject to an independent audit, which is by MGO, under the same contract.

**PURPOSE OF THE AUDIT PER CONTRACT**

Pursuant to Contract No. C-124148 Section B, the purpose of the audit of the SCM financial statements prepared in accordance with GAAP, are to prepare the financial statements and notes for the SCM from the final adjusted trial balance prepared by Public Works Office of Accounting (OOA), express an opinion of the fair presentation of the SCM financial statements

in accordance with GAAP, including the debt service compliance report, and to report addressed to management, presenting findings and recommendations to improve or correct if necessary.

### **Fiscal Year ending June 30, 2015 Audit Report**

In the subject audit report, MGO reported one finding and recommendation in regards to the reconciliation and collectibility of interfund receivables. MGO recommends “that procedures be established to ensure that interfund receivables are reconciled to the concurrence of all key related parties during the year and that a determination of repayment provisions of these amounts occur at year end. This procedure will assist in ensuring the accuracy of the interfund receivables for financial reporting”.

### **INTERFUND RECEIVABLE/PAYABLE**

Interfund receivable or payable results from the validation and reconciliation prepared by OOA every fiscal year end by documenting and tracing all charges to the SCM programs by the three bureaus, funded and expended money for SCM projects. Every fiscal year end, the Bureaus, through the Reversion Worksheet process required by the Controller’s Office, “liquidates” the funding provided by SCM by comparing budget allocation from SCM and their actual expenditures. OOA compares the general ledger reconciled (validated and documented) amounts against the reversion worksheet. Any difference is then recorded in the books by OOA as either Due From (Interfund receivable) or Due to (Interfund Payable) the General Fund (Exhibit C).

The interfund receivable as of June 30, 2015 amounts to \$34.9 million due from the General Fund of three Bureaus (rounded off):

1. Bureau of Contract Administration (BCA) - \$2.3 million
2. Bureau of Engineering (BOE) - \$24.0 million
3. Bureau of Sanitation (BOS) - \$8.6 million

### **OOA’s RESPONSE TO THE AUDIT FINDING**

MGO’s audit finding states that “Absent an internal control to reconcile interfund receivables/payables to the concurrence of all key related parties and perform an assessment of repayment provisions may result in the financial statements not being in conformity with GAAP”.

#### **A. “...repayment provisions...”**

On January 7, 2016, as a result of pre-exit meetings with MGO requiring a repayment plan, the Mayor’s Office, Controller’s Office, Office of the City Administrative Officer (CAO), BOS, BOE, and Board of Public Works (BPW)-OOA met to agree upon a payment plan to pay SCM’s

interfund receivable. In said meeting, it was agreed that the General fund will pay SCM for the total of \$34.9 million with equal annual payments in the next four budget cycles starting in fiscal year 2016-17.

**B. “Absent an internal control to reconcile interfund receivables/payables to the concurrence of all key related parties...”**

The OOA’s mission is mainly to safeguard the public works assets of the City. OOA does the centralized accounting for all financial transactions entered into by the Department of Public Works (DPW), ensuring that all five Bureaus and the Office of the BPW, are accountable for these transactions. OOA ensures that accountability and transparency are observed in the department, through observing proper accounting standards and generally accepted accounting principles (GAAP), implementing the Governmental Accounting Standards Board (GASB) requirements applicable to the department, instituting reasonable internal controls, ensuring compliance with City financial and Controller policies, contract provisions, GOB covenants, etc. and by maintaining its independence from all accountable employees in the DPW. Independence in this context means reasonable assurance that the financial statement is free from material misstatement, caused by error or fraud. While this task is mainly of the Auditors, OOA observes it to ensure that DPW will be foolproof in regards to this area due to the nature of the organization of DPW. The accounting professional ethics requires that Accountants “should avoid the intentional opportunity to deceive and manipulate financial information”. It says that objectivity and independence are important ethical values in the accounting profession, that “Accountants must remain free from conflicts of interest and other questionable business relationships when conducting accounting services.” OOA, by exercising these ethics and by observing compliance with GAAP, GASB, etc., makes assurance to the public that their moneys for public works services, be it in the form of taxes, fees, etc., are properly accounted for, appropriated and expended in accordance with the laws and ordinances that authorize the spending.

OOA believes that MGO’s finding, which states that there is an absence of internal control to reconcile interfund receivable to the concurrence of all key related parties, *is not appropriate*, for the following reasons:

1. Amounts recorded for interfund receivable in SCM books are accurate and properly documented.
2. Reasonable internal controls and accounting procedures are in place (Exhibit C)
3. Concurrence from all key related parties is not directly related to any type of reconciliation, which in this case, is about interfund receivable.

OOA shall continue to record moneys based on sufficient and factual documentations. If there is disagreement with the amounts recorded by OOA, it is prudent to provide OOA with sufficient

documentation to substantiate the disagreement or non-concurrence, for OOA to make adjustments in the SCM books or in the City's Financial Management System (FMS).

OOA will continue to exercise good professional ethics and comply with accounting standards to assure the public that the City's Department of Public Works observes accountability and transparency.

**Controller's GAAP Directive No. 144**

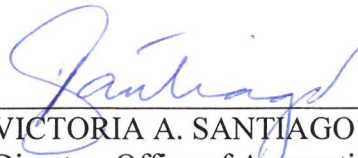
On April 4, 2016, effective immediately for all departments to observe, Controller's issued GAAP Directive No. 144, instructing the departments to accrue an Interfund Receivable/Payable (Due To/Due From) for the department's related costs and reimbursement revenue accounts by comparing actual expenditures with the reimbursements received through the budget process at the end of the fiscal year. Both will result from comparing documented actual expenditures versus the reported expenditures.

In effect, GAAP Directive NO. 144 validates what OOA has already been doing and practicing for SCM, an enterprise fund.

**FISCAL IMPACT**

Collectibility of the interfund receivable will impact the City's General Fund by an estimated \$8.73 million for each budget fiscal year for the next four years to pay off the \$34.9 million interfund receivable of SCM.

Respectfully submitted,

  
VICTORIA A. SANTIAGO  
Director, Office of Accounting