

OFFICE OF
CONTROLLER

200 N. MAIN STREET, RM 300
LOS ANGELES 90012
(213) 978-7200
www.lacity.org/ctr

June 24, 2009

Honorable Antonio R. Villaraigosa, Mayor
Honorable Rockard J. Delgadillo, City Attorney
Honorable Members of the City Council

SUBJECT: REVIEW OF INTERNAL CONTROLS AT EL PUEBLO DE LOS ANGELES HISTORICAL MONUMENT

I am releasing the enclosed report entitled, "Review of Internal Controls at El Pueblo de Los Angeles Historical Monument." A copy of this report was provided to the El Pueblo General Manager.

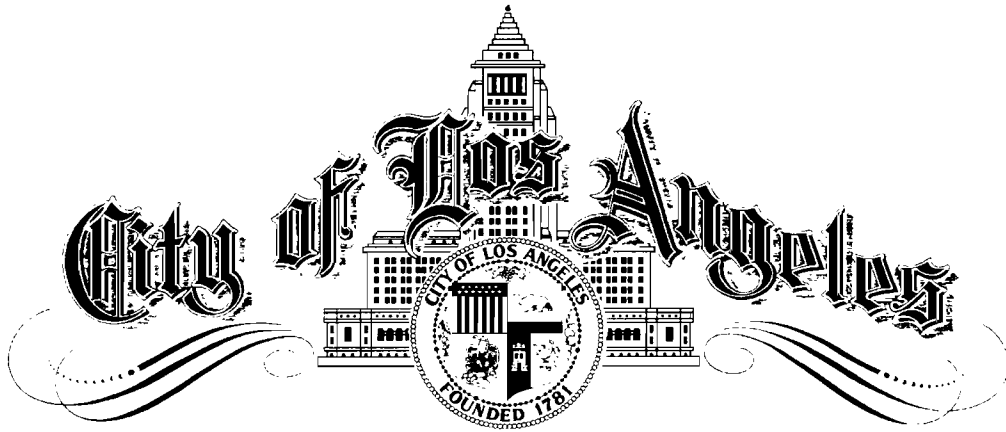
If you have any questions or comments, please contact me at (213) 978-7392.

Sincerely,

A handwritten signature in black ink, appearing to read 'Farid Saffar', written over a white background.

FARID SAFFAR, CPA
Director of Auditing

Enclosure



OFFICE OF
CONTROLLER

200 N. MAIN STREET, RM 300
LOS ANGELES 90012
(213) 978-7200
www.lacity.org/ctr

June 24, 2009

Robert L. Andrade, General Manager
El Pueblo de Los Angeles Historical Monument
125 Paseo de la Plaza, Suite 400
Los Angeles, CA 90012

Dear Mr. Andrade:

Enclosed is the report entitled, "Review of Internal Controls at El Pueblo de Los Angeles Historical Monument." A draft of this audit report was provided to your office on May 29, 2009. Comments provided by your Department at the meeting held on June 12, 2009 were evaluated and considered prior to finalizing this report.

Please review the final audit report and advise the Controller's Office by July 23, 2009 on planned actions you will take to implement the recommendations. If you have any questions or comments, please contact me at (213) 978-7392.

Sincerely,

FARID SAFFAR, CPA
Director of Auditing

Enclosure

cc: Robin Kramer, Chief of Staff, Office of the Mayor
Jimmy Blackman, Deputy Chief of Staff, Office of the Mayor
Ben Ceja, Director, Finance & Performance Management, Office of the Mayor
Adrian Garcia, Assistant Director of Capital Projects, Office of the Mayor
Herbert Siguenza, President, El Pueblo Historical Monument Authority Commission
Raymond P. Ciranna, Interim City Administrative Officer
June A. Lagmay, City Clerk
Gerry F. Miller, Chief Legislative Analyst
Independent Auditors





City of Los Angeles Office of the Controller

Review of Internal Controls at El Pueblo de Los Angeles Historical Monument

June 24, 2009

City Controller

TABLE OF CONTENTS

EXECUTIVE SUMMARY.....	1
BACKGROUND AND METHODOLOGY	8
AUDIT FINDINGS AND RECOMMENDATIONS	13
SECTION I: LOST REVENUE OPPORTUNITIES.....	13
SECTION II: CONTRACT MONITORING.....	18
SECTION III: INTERNAL CONTROLS.....	26
APPENDIX I.....	32

**REVIEW OF INTERNAL CONTROLS AT
EL PUEBLO DE LOS ANGELES
HISTORICAL MONUMENT**

EXECUTIVE SUMMARY

The Audit Division has completed a review of internal controls at El Pueblo de Los Angeles Historical Monument. The primary objective of this audit was to assess the internal controls over El Pueblo's revenues and expenses.

BACKGROUND

El Pueblo (the Department) operates the El Pueblo de Los Angeles Historical Monument. Located at the sites of 20 historical buildings, El Pueblo contains the historical Plaza that dates to 1825, Olvera Street, four museums and five parking lots. Olvera Street also has 74 retail stores, including eight restaurants. According to management, El Pueblo holds about 110 events and attracts over two million visitors annually.

The Department's fiscal year 2007-08 revenues totaled \$3.3 million. El Pueblo's largest source of revenues is parking fees. El Pueblo generates about \$2 million annually from its five lots, which are managed by the Department of General Services. The next largest source of revenue is concession rentals which totaled about \$840,000.

Fiscal year 2007-08 expenditures totaled \$4.1 million with salaries and transfers to the Department of General Services comprising 88% of the total. Since expenditures exceed revenues, the difference must be made up through General Fund transfers. General Fund transfers have increased significantly over the past several years from approximately \$369,000 in fiscal year 2004-05 to \$921,000 in fiscal year 2007-08.

SCOPE

The audit was performed in accordance with Generally Accepted Government Auditing Standards and covered the period from July 1, 2007 through December 31, 2008. Fieldwork was conducted between February 2009 and May 2009.

SUMMARY OF AUDIT RESULTS

While General Fund contributions to El Pueblo have increased each year for the past several years, rents from El Pueblo merchants have not. We found numerous opportunities for El Pueblo to increase its revenues by using its assets more effectively. There are several buildings at El Pueblo that have been underutilized for years that could be rented. In addition, El Pueblo is not charging merchants/tenants market rates and is subsidizing tenants by covering most of their common area maintenance fees and other costs. There is also a lack of monitoring of contracts with non-profits and merchants, which contributes to the shortfall. Finally, we found internal controls could be improved in several areas to minimize inventory losses and to reduce the risk of payroll improprieties.

Following are some of the audit's key findings:

Merchants have not had their rents increased for at least ten years. If El Pueblo charges market rates, it could potentially increase revenues by \$1.1 million to \$1.5 million per year.

El Pueblo currently receives rental income of \$70,000 per month (\$840,000 per year) from its merchants. The average rent paid is \$1.35 per square foot per month for approximately 52,000 square feet. Of the 74 spaces currently rented, 17 are covered by lease agreements and 57 are covered by concession agreements.

Almost all of the current merchants are paying less than the market rate. If El Pueblo charges market rates, it could increase revenue by \$93,000 to \$129,000 per month (\$1.1 million to \$1.5 million per year) for its concession agreements. El Pueblo is precluded from increasing rates for the 17 leases unless it either makes certain facility improvements (which El Pueblo management believes is unlikely in the foreseeable future) or renegotiates the leases. If El Pueblo could charge market rates for the 17 leases, it could increase revenue by an additional \$197,000 to \$287,000 per year.

El Pueblo has numerous underutilized properties that could potentially be used to increase its revenue streams and/or enhance its mission.

The Department has several buildings that are generally idle except for occasional special events and exhibits. These buildings could generate as much as \$1.5 million a year in revenue if they could be rented out as office space.

El Pueblo management should consider issuing Requests for Proposal for these underutilized properties. The RFP should include, among other things, factors, such as needed repairs and deferred maintenance of these buildings, as part of negotiating equitable rental revenues with potential lessees. For buildings that cannot be rented out, a determination should be made as to the best use of the building.

El Pueblo does not bill merchants for the full cost of maintaining common areas. Consequently, the Department is losing potential revenue of \$296,000 per year.

Common Area Maintenance (CAM) fees are imposed on merchants for common area expenses for trash removal, litter removal, restroom maintenance, motorized scrubbing, steam cleaning, fountain cleaning, gardening, and replacing security lights. The CAM fees for the 74 merchants range from \$4 to \$916 per month.

El Pueblo collects \$60,000 per year in CAM fees, but it pays the Department of General Services and the Department of Recreation and Parks \$1.65 million a year for maintaining the common areas. Based on the space used by the merchants, they should be paying about \$356,000 per year in CAM fees. Thus, El Pueblo is under recovering costs of \$296,000 from the merchants.

There is a lack of oversight of non-profit organizations using El Pueblo. Some non-profits are not in compliance with their agreements or do not have current agreements. Other non-profits do not appear to be providing sufficient in-kind contributions for the value they receive from the City.

Non-profit organizations use about 19,032 square feet of free office space at El Pueblo. This equates to approximately \$342,000 per year of potential rent revenues that are not collected. The non-profits also do not pay for maintenance costs or utilities. In consideration for no monetary rental charge, the non-profits should provide in-kind contributions such as promotional, cultural and educational services (e.g. a museum exhibit), subject to periodic review by El Pueblo management. In some cases, it appears that El Pueblo receives little benefit from some of the non-profits. In addition, minimal monitoring of these organizations occurs. For example, El Pueblo generally does not ensure the organizations' compliance with their agreements. Three of the non-profits do not even have a current agreement with the City.

El Pueblo lacks monitoring to ensure that merchants who signed lease or concession agreements or pay rents are authorized tenants. The Department has not had a process to routinely verify tenancy.

Assignability of concession agreements has not been adequately monitored. El Pueblo does not ensure that merchants who signed lease or concession agreements or pay rents are authorized tenants. El Pueblo has not had a process of routinely verifying tenancy. During our audit, El Pueblo began sending letters to merchants to confirm tenancy. In some cases, concession agreements were apparently assigned by prior merchants to the current merchants several years ago, but there is no evidence of management approval prior to the assignment. For example, we saw evidence that tenants had assigned their concession agreements to other tenants and received payments of up to \$150,000.

By not monitoring the transfer of concession agreements from the existing merchants to parties of their choice, there is a risk that the City will lose control over the process of

managing the properties, that unauthorized payments will occur between the parties, and that the City will not obtain market rates such as would occur with the Request For Proposal process.

REVIEW OF REPORT

A draft report was provided to El Pueblo management on May 29, 2009. We discussed the contents of the report with management on June 12, 2009. The Department generally concurred with the report's findings and observations. We considered the comments provided by the Department before finalizing this report. The Department recognizes the need for improvements and has indicated that it has begun to address some of the issues in this report. We would like to thank management and staff for their cooperation and assistance during the audit.

TABLE OF RECOMMENDATIONS

RECOMMENDATIONS	PAGE REFERENCE
Section I. Lost Revenue Opportunities	13
1. El Pueblo management should take appropriate steps to charge market rental rates. New concession agreements should contain a clause to adjust rates annually using the Consumer Price Index and/or market rental rates.	14
2. El Pueblo management should consider other formulae for rent, such as collecting a fixed rate plus a percentage of gross revenues for some types of businesses.	14
3. El Pueblo management should consider issuing Requests for Proposal for these underutilized properties. The RFP should include, among other things, factors, such as needed repairs and deferred maintenance of these buildings, as part of negotiating equitable rental revenues with potential lessees. For buildings that cannot be rented out, a determination should be made as to the best use of the building.	15
4. El Pueblo management should adjust annually CAM fees for merchants to keep pace with CAM expenses that El Pueblo incurs. Seek comparable in-kind contributions for non-profits to help cover CAM costs. CAM fees should be based on square footage used by merchants.	16
5. El Pueblo management should prepare an annual statement of all CAM expenses, with input from GSD and RAP, and distribute copies of this statement to every tenant annually. This statement should be reasonably detailed, showing the tenant's share of the actual common area maintenance expenses incurred during the proceeding year.	16
6. Complete the CAM survey using industry standards.	17
7. El Pueblo management should, after the CAM survey has been completed, create a master list and/or database of every building and usable interior space at El Pueblo which contains accurate square footage data for each space.	17
Section II. Contract Monitoring	18
8. El Pueblo management should enforce all contract requirements such as non-use of premises, subleasing of premises, or failure to obtain an agreement with the City to occupy the premises.	21
9. El Pueblo management should monitor non-profits to ensure that these organizations provide value to the City and that their activities coincide with El Pueblo's mission.	21

RECOMMENDATIONS	PAGE REFERENCE
<p>10. a) Reassess the agreements for services provided by the three non-profit organizations that do not have current agreements for the purpose of either seeking a new tenant(s), or negotiating a new lease/agreement with these non-profit organizations. If a decision is made to negotiate new agreements with these non-profit organizations, the agreements should include:</p> <ul style="list-style-type: none"> • The space occupied by the non-profit, the use of utilities and other El Pueblo resources, the financial value of the space occupied, and the in-kind contributions required to occupy the space. • Submission of annual statements of in-kind contributions with the assessed value of the in-kind contributions. <p>b) If a decision is made to seek new tenants, the physical condition of these buildings should be considered when seeking market rates.</p>	21
<p>11. El Pueblo management should ensure, on an annual basis, that non-profits do not have a delinquent registration status and that the non-profit has filed their Annual Registration Renewal Fee Report (RRF-1) and a copy of the IRS Form 990, if needed, with the State Attorney General's Office.</p>	21
<p>12. El Pueblo management should determine the validity of assignments for all merchants, in consultation with the City Attorney's Office.</p>	23
<p>13. El Pueblo management should require certification at least annually to ensure current merchants are valid in accordance with concession agreements.</p>	23
<p>14. El Pueblo management should, in accordance with City policy, put all newly available spaces out to competitive bid.</p>	23
<p>15. El Pueblo management should charge the correct rental rates in concession agreements to merchants, unless documentation can be found indicating that lower rates were approved.</p>	23
<p>16. El Pueblo management should conduct regular and documented inspections of its merchants for compliance with public area rules and regulations. Violators should be issued written citations.</p>	24
<p>17. El Pueblo management should analyze and report the cost effectiveness of contracting with OSMAF versus putting traditional events out to bid.</p>	25
<p>Section III. Internal Controls</p>	26
<p>18. El Pueblo management should continue its efforts to complete the cataloging of historical artifacts. Periodic physical inventories should be done of collections, with a priority placed on items believed to be of higher value.</p>	26

RECOMMENDATIONS	PAGE REFERENCE
19. El Pueblo management should decontaminate items at the on-site storage area and move them to a more suitable location.	26
20. El Pueblo management should update its equipment records in the Centralized Asset Management System and the ServiceDesk On Line system whenever the Department acquires or disposes equipment.	28
21. El Pueblo management should conduct documented biennial inventories of equipment items, as required.	28
22. El Pueblo management should take appropriate action to install a different operating system on the two unused computers.	28
23. El Pueblo management should maintain a centralized electronic file of overtime approvals.	29
24. El Pueblo management should periodically reconcile overtime authorizations to payroll reports.	29
25. El Pueblo management should conduct surprise payroll payoffs by someone independent of payroll and personnel responsibilities or conduct a periodic review of payroll reports to verify that all employees listed on the payroll are bona fide.	29
26. El Pueblo management should ensure that the register tape at the Visitor Center is kept intact within the cash register. The Accounting Section can review these tapes at the Visitor Center to verify daily sales reported.	29
27. El Pueblo management should consult with the Department of General Services on the feasibility of having a greater security presence at the Biscailuz Building entrance.	30
28. El Pueblo management should complete the Internal Control Certification Program and submit the ICCP certification to the Controller's Office by the established deadlines.	31

BACKGROUND AND METHODOLOGY

BACKGROUND

History, Governance and Mission

El Pueblo (the Department) operates the El Pueblo de Los Angeles Historical Monument. Located at the sites of 20 historical buildings, El Pueblo contains the historical Plaza that dates to 1825, Olvera Street, four museums and five parking lots. Olvera Street also has 74 retail stores, including eight restaurants. According to management, El Pueblo holds about 110 events and attracts over two million visitors annually.

Olvera Street opened in 1930 as a Mexican market place, offering vendors an opportunity to sell traditional wares and to preserve and present the customs and trades of early California. It was managed by a group of citizens called the El Pueblo Corporation. In 1953, an effort to preserve the area resulted in the creation of a State historic park. The State of California, the County of Los Angeles, and the City of Los Angeles joined together to purchase the buildings and sites around the Plaza. In 1989, the Park was turned over to the City of Los Angeles, who now operates the Monument.

El Pueblo is governed by the El Pueblo Board of Commissioners which consists of nine members appointed by the Mayor. Established in 1994, the Commission establishes policies and provides long-term oversight. El Pueblo's mission is to promote and preserve the City's birthplace and heritage with community events and educational programs. Its goals are to increase revenue, monitor and enforce contract / lease provisions, improve public safety, maintain historical buildings and artifacts, increase cultural events, investigate marketing opportunities, expand education and increase tourism. Another goal is to move toward financial self-sufficiency through exploring new and innovative revenue streams.

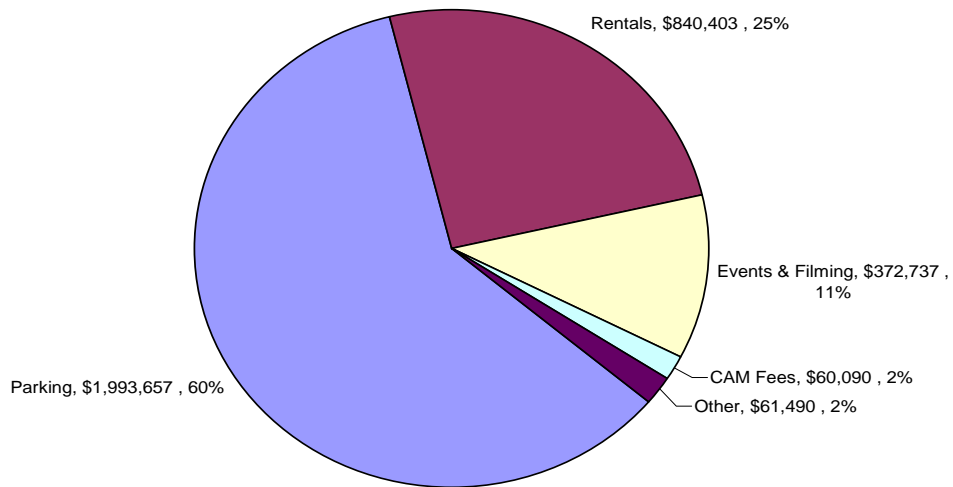
El Pueblo is authorized for 21 full time staff. Currently the Department has 17 full time staff, 19 part time staff and two substitutes.

El Pueblo has non-profit organizations on site that use space and other resources provided free-of-charge by the City. In return, these non-profits should provide in-kind contributions to El Pueblo such as fundraising for the Monument, tours of the Monument, promotions of El Pueblo, and cultural and educational events such as museum exhibitions.

Revenues and Expenses

The Department's fiscal year 2007-08 revenues totaled \$3.3 million. El Pueblo's largest source of revenues is parking fees. El Pueblo generates about \$2 million annually from its five lots, which are managed by the General Services Department. The next largest source of revenue is concession rentals which totaled about \$840,000. The chart below shows a breakdown of the Department's revenues.

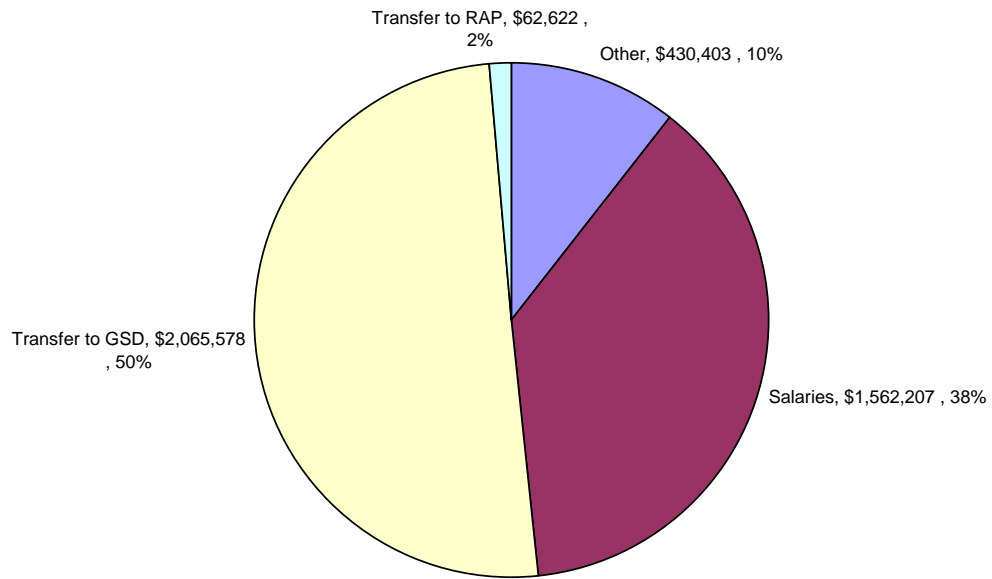
El Pueblo Revenues FY 2007-08



El Pueblo's fiscal year 2007-08 expenditures totaled \$4.1 million. Salaries of \$1.6 million and transfers to the Department of General Services of \$2.1 million comprised 88% of the total expenditures. El Pueblo pays the Department of General Services for providing parking services, custodial services, building maintenance/repair, and security.

The chart below shows a breakdown of the Department's expenditures.

El Pueblo Expenses FY 2007-08



As shown in the chart and table below, General Fund transfers have increased significantly over the past several years from approximately \$369,000 in fiscal year 2004-05 to \$921,000 in fiscal year 2007-08.

El Pueblo Revenues, Expenditures and General Fund Contributions

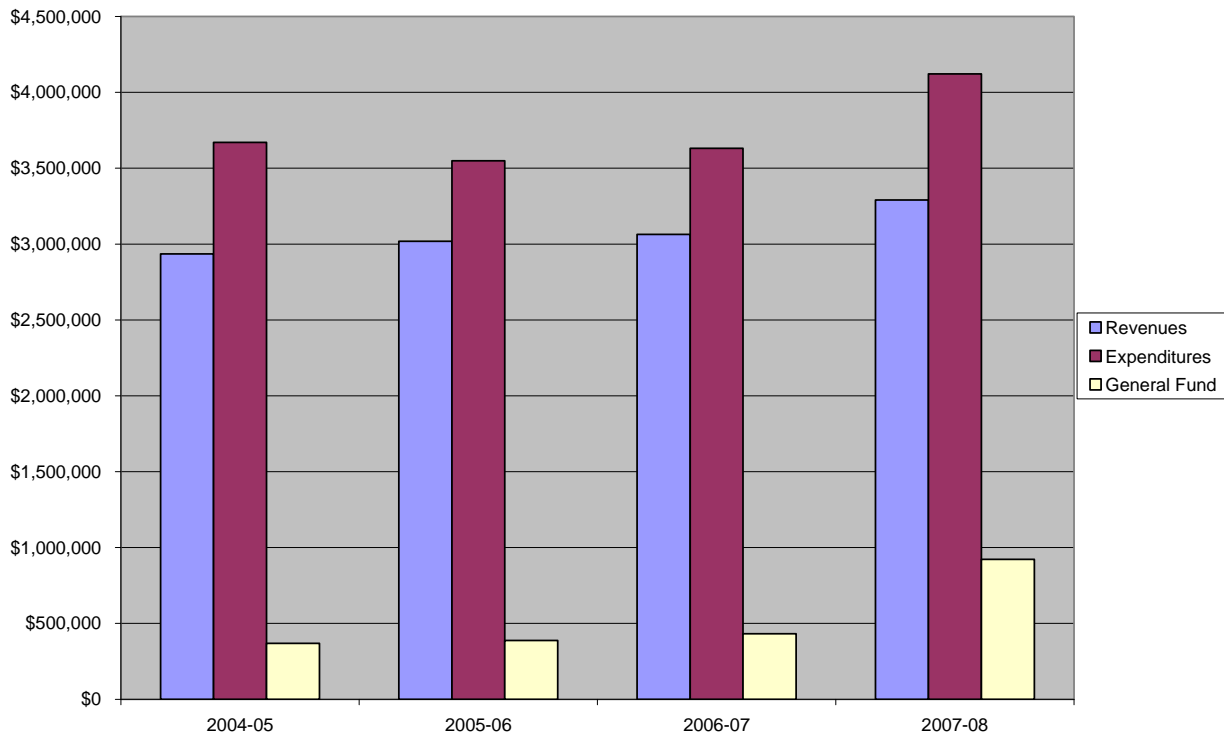


Table 1: Revenues, Expenditures and General Fund Contributions

	2004-05	2005-06	2006-07	2007-08
Revenues	\$2,934,636	\$3,018,894	\$3,063,129	\$3,290,911
Expenditures	\$3,671,181	\$3,549,290	\$3,631,042	\$4,120,808
General Fund	\$ 368,577	\$ 387,518	\$ 432,331	\$ 921,385

Source: Proposed Budget Books

OBJECTIVES, SCOPE AND METHODOLOGY

The main objective of this audit was to assess the internal controls over El Pueblo's revenues and expenses. Specifically, we:

- Evaluated the adequacy of operational controls over revenue and fee collections.
- Evaluated whether fees and revenues are received based on established policies and procedures and in accordance with merchant agreements.
- Assessed the appropriateness of the department's controls to ensure payments to vendors are accurate, timely and appropriate.
- Evaluated internal controls over salaries, related costs and fixed assets.

One of the factors that entered into our decision to audit El Pueblo was that the Department did not complete the required Internal Control Certification Program (ICCP) report for fiscal year 2007-08.

The audit was performed in accordance with Generally Accepted Government Auditing Standards and covered the period from July 1, 2007 through December 31, 2008. Fieldwork was conducted between February 2009 and May 2009.

In conducting our audit, we interviewed management, staff and stakeholders and reviewed applicable policies and procedures to obtain an understanding of the key processes for revenue and expenses. We then selected sample transactions and reviewed key documents, such as agreements with non-profits, lease agreements and concession agreements to determine compliance with City policies and procedures and to identify areas where improvements can be made.

The remainder of this report details our findings, comments and recommendations.

AUDIT FINDINGS AND RECOMMENDATIONS

SECTION I. LOST REVENUE OPPORTUNITIES

Finding #1: Merchants have not had their rents increased for at least ten years. If El Pueblo charges market rates it could potentially increase revenues by \$1.1 million to \$1.5 million per year.

One of El Pueblo's stated goals is to be self-sufficient. However, we found that the Department does not charge market rates for its rental spaces. Charging market rates would help El Pueblo meet its goal of being self-sufficient.

El Pueblo currently receives rental income of \$70,000 per month (\$840,000 per year) from its merchants. The average rent paid is \$1.35 per square foot per month for approximately 52,000 square feet. Of the 74 spaces currently rented, 17 are covered by lease agreements and 57 are covered by concession agreements.

The 17 leases were executed between September 2000 and April 2003. When the leases were signed, rents were increased retroactively to 1998. These 55-year leases contain a provision that states that rates can be increased by a Consumer Price Index (CPI) factor only if the City makes certain improvements related to the Monument. One of these improvements is to construct a parking facility at El Pueblo. According to El Pueblo's General Manager, construction is unlikely in the foreseeable future. Not only would the construction be costly, there are a sufficient number of parking spaces for El Pueblo visitors.

With respect to the concession agreements, the City Attorney's Office has stated that El Pueblo rental rates can lawfully be increased on one month's notice. According to a draft report of a market rate study completed by a contractor, market rates for comparable retail spaces range from \$2.65 to \$6.75 per square foot, depending on the size of the premises.

If El Pueblo charges market rates, it could increase revenue by \$93,000 to \$129,000 per month (\$1.1 million to \$1.5 million per year) for the concession agreements. Also, the 17 existing lease agreements could increase revenue by \$16,400 to \$23,955 per month (\$196,800 to \$287,460 per year) if El Pueblo negotiates a contract amendment to the lease which allows El Pueblo to charge market rates.

It should also be noted that the most recent lease agreement at El Pueblo, filed with the City Clerk on July 8, 2008, with a coffee house and retail store allows for a base rental rate plus a percentage of gross revenues. This lease has a five-year term with automatic annual increases of rent. The lease allows for a five-year extension with

adjustments based on fair market value. The tenant submits quarterly statements of gross revenues to the City. The lease also allows for early termination by either party with 90 days notice. We believe that rentals based on gross revenues may be more advantageous to the City for certain types of businesses.

On May 18, 2009, the Council adopted a resolution (Action 112) to instruct the General Manager to ensure that new leases with the remaining tenants currently without leases are executed by December 31, 2009, and further instruct the General Manager to submit a status report on lease negotiations to Council committees by September 1, 2009.

Recommendations

El Pueblo management should:

- 1. Take appropriate steps to charge market rental rates. New concession agreements should contain a clause to adjust rates annually using the Consumer Price Index and/or market rental rates.**
- 2. Consider other formulae for rent, such as collecting a fixed rate plus a percentage of gross revenues for some types of businesses.**

Finding #2: El Pueblo has numerous underutilized properties that could potentially be used to increase its revenue streams and/or enhance its mission.

There are several buildings at El Pueblo that may be underutilized. These buildings include:

- Pico House
- Merced Theatre
- Masonic Hall
- Hellman/Quon Building
- Garnier Building
- Plaza Substation
- Two upper floors of the Sepulveda House

These buildings have the potential to generate as much as \$1.57 million in revenue annually if they could be rented out. Other than temporary uses such as storage, most of these buildings have been vacant for at least ten years and have not been generating revenue.

El Pueblo management stated that there are planned uses for some of these buildings. Others may have legal impediments to being rented and some need repair. For example, the Pico House, Merced Theatre, the Masonic Hall, and the Hellman/Quon Building are idle except for occasional special events and exhibits. A lease was given

to Old LA Corp. in 1983 to develop these properties. However, problems arose with the development as planned. In 1996, the City and Old LA executed a termination agreement which gave Old LA the first right of refusal should the City solicit proposals to develop the site. In July 2004, Old LA engaged the City in litigation on the basis that the City violated the termination agreement. Old LA is seeking reimbursement for predevelopment costs. The City is now engaged in negotiations with Old LA Corp. over these four buildings.

The negotiations with Old LA and the City began in 2005, and no agreement has been reached. The parties have struggled with various issues such as the value of Old LA's predevelopment costs to the City, the amount of CAM fees to be paid by Old LA, and financing for building improvements that Old LA has been unable to obtain. According to the Chief Legislative Analyst, the City Council has the authority to resolve this issue by settling with Old LA or pursuing other courses of action. There is little cost to Old LA for protracted negotiations, but with each month that goes by, the City loses more revenue. The final result is that for 25 years these buildings have not been leased, with the accompanying loss of revenues.

Recommendation

- 3. El Pueblo management should consider issuing Requests for Proposal for these underutilized properties. The RFP should include, among other things, factors, such as needed repairs and deferred maintenance of these buildings, as part of negotiating equitable rental revenues with potential lessees. For buildings that cannot be rented out, a determination should be made as to the best use of the building.**

Finding #3: El Pueblo does not bill merchants for the full cost of maintaining common areas. Consequently, the Department is losing potential revenue of \$295,961 per year.

Common Area Maintenance (CAM) fees are imposed on merchants for common area expenses for trash removal, litter removal, restroom maintenance, motorized scrubbing, steam cleaning, fountain cleaning, gardening, and security. El Pueblo collects \$60,090 per year in CAM fees by charging its 74 merchants a fee that ranges from \$4 to \$916 per month. CAM fees were established over ten years ago but do not reflect actual CAM costs today.

The 17 lease agreements allow CAM fees to be increased or decreased based on the cost of maintaining the common areas. The City should provide merchants with a reasonably detailed statement showing the merchants' share of the actual common area maintenance expenses incurred during the previous year. According to El Pueblo management, there was an increase imposed in 2004 for the 17 leaseholders. The increase was based on increases in the Consumer Price Index and was not based on actual expenditures.

According to GSD's Budget Analysis - Special Fund for fiscal year 2007-08, the total costs attributed to El Pueblo was \$1.55 million: \$602,561 for custodial services \$567,004 for building maintenance and repair, and \$380,595 for security. In addition, the Department of Recreation and Parks billed El Pueblo \$60,000 for fiscal year 2007-08 and \$100,000 for fiscal year 2008-09. Thus, total CAM costs are approximately \$1.65 million per year. Based on El Pueblo's square footage records, merchants have 21.6% of leasable space at El Pueblo. Therefore, CAM costs attributable to merchants are \$356,051, as shown in the table below. Non-profits do not pay CAM fees.

Table 2: Square Footage and CAM Costs

	Sq. Ft.	%	CAM Costs
Merchants	52,000	21.6%	\$356,051
Non-profits	19,000	7.9%	\$130,096
Offices, Museums, Storage, Construction	170,000	70.5%	\$1,164,013
Totals	241,000	100%	\$1,650,160

Since the Department currently collects \$60,090 in yearly CAM fees, there is the potential to generate additional revenue of \$295,961 (\$356,051 - \$60,090) if CAM fees were charged based on actual costs. It should be noted that before El Pueblo proceeds with this plan, it will need to ensure that it has accurate square footage data for each space used by the various merchants (see finding #4).

Recommendations

El Pueblo management should:

- 4. Adjust annually CAM fees for merchants to keep pace with CAM expenses that El Pueblo incurs. Seek comparable in-kind contributions for non-profits to help cover CAM costs. CAM fees should be based on square footage used by merchants.**
- 5. Prepare an annual statement of all CAM expenses, with input from GSD and RAP, and distribute copies of this statement to every tenant annually. This statement should be reasonably detailed, showing the tenant's share of the actual common area maintenance expenses incurred during the proceeding year.**

Finding #4: El Pueblo does not have a master list of properties with accurate square footage for adequate management.

Effective property management requires a master list of all properties with accurate measurements for square footage. El Pueblo management has several lists such as a list of current tenants, a list of non-profits, and incomplete lists of buildings, but there is not a complete master list with current information.

Square footage was last surveyed in 1996. However, management did not have documentation of the survey. The current information may not be accurate because, over the years, El Pueblo has altered, combined and reduced various spaces. In addition, some tenants may have encroached on other spaces.

Having accurate square footage information will help El Pueblo assess whether merchants are paying market rates for their spaces (see Finding #1). Accurate information will also allow the Department to allocate CAM fees to merchants on an equitable basis (See Finding #3).

During our audit, El Pueblo / GSD released a Request For Quotation for a survey to measure square footage of all spaces at El Pueblo, to assess what CAM fees should be, and to provide standard practices for assignment of CAM fees. The survey and report are expected to take several months.

Recommendations

El Pueblo management should:

- 6. Complete the CAM survey using industry standards.**
- 7. After the CAM survey has been completed, create a master list and/or database of every building and usable interior space at El Pueblo which contains accurate square footage data for each space.**

SECTION II. CONTRACT MONITORING

Finding #5: There is a lack of oversight of non-profit organizations using El Pueblo. Some non-profits are not in compliance with their agreements or do not have current agreements. Other non-profits do not appear to be providing sufficient in-kind contributions for the value they receive from the City.

We reviewed eight non-profit organizations at El Pueblo:

1. El Pueblo Park Association
2. Las Angelitas del Pueblo
3. Friends of the Chinese American Museum (FCAM)
4. The Historic Italian Hall Foundation
5. Box 15 (Fire House Museum)
6. Plaza Community Center (Methodist Church)
7. Mexican Cultural Institute (MCI)
8. Consejo de Federaciones Mexicanas en Norte America (COFEM)

El Pueblo management stated that these non-profits can be divided into two groups:

1. Non-profits that exist solely to support El Pueblo (El Pueblo Park Association, Las Angelitas, FCAM, Italian Hall Foundation and Box 15). These organizations provide volunteers, services and fundraising that help El Pueblo achieve its mission.
2. Non-profits that have missions beyond El Pueblo (Plaza Community Center, MCI and COFEM), meaning they conduct some activities that are not associated with El Pueblo and they would still exist even if they had no relationship with El Pueblo.

The Department has not adequately monitored the activities of non-profits. The lack of monitoring of non-profits means that El Pueblo management cannot be sure that the non-profits are providing sufficient value for the spaces and benefits El Pueblo gives them. El Pueblo provides free rent, maintenance, and utilities to all of these organizations except El Pueblo Park Association and Box 15, which do not use any space at El Pueblo. In consideration for no monetary rental charge, the non-profits should provide promotional, cultural and educational services (e.g. a museum exhibit), subject to periodic review by El Pueblo management.

Based on discussions with El Pueblo and our limited observations, some of these organizations such as FCAM provide significant benefits to the City. Other

organizations such as COFEM and MCI appear to provide limited benefits, especially when compared to the benefits these organizations receive from the City.

Office space at El Pueblo could be leased for \$1.50 per square foot per month, according to management. The non-profits occupy about 19,000 square feet. This equates to \$342,000 per year in potential rent revenues that could be generated.

Our review also disclosed the following:

- Three non-profits do not have current agreements with the City (MCI, COFEM and Plaza Community Center). MCI's agreement expired in 2003, and Plaza Community Center's expired in 2006. MCI has tenancy at sufferance of the City, meaning a hold-over tenancy after the lease has expired but before the City has demanded that the tenant vacate the premises. During a tenancy at sufferance, the tenant is bound by the terms of the lease which existed before it expired.

COFEM has never had an agreement with the City but is at El Pueblo at the behest of MCI. Four additional agreements (Italian Hall Foundation, FCAM, El Pueblo Park Association and Las Angelitas) are open-ended, which means either party may terminate the agreement with advance notice.

- MCI, Plaza Community Center, El Pueblo Park Association and Las Angelitas have delinquent non-profit registration status. The delinquent status means that the organization is at least one year behind in filing their annual forms with the State Attorney General's Office. The forms are the Annual Registration Renewal Fee Report (RRF-1) and possibly a copy of the IRS Form 990.

Detailed below are our observations concerning selected non-profits.

1. Non-profits that have missions beyond El Pueblo

Mexican Cultural Institute (MCI) and Consejo de Federaciones Mexicanas en Norte America (COFEM)

MCI's contract requires in-kind contribution reporting of services of a cultural, educational, promotional and technical nature that the City needs, such as exhibits and events. According to section 3.1 of their lease, every six months MCI is to provide the City with a listing of services and benefits to be provided, and at the end of each six months a report of actual services and benefits provided. According to El Pueblo management, MCI has not provided the reports since the beginning of the lease term in May 1, 2000.

MCI has also allowed another organization, COFEM, to use their space without approval from the City. Section 3.2 of the MCI lease states, "Lessee shall not sublease the premises. Lessee shall not charge, and shall refuse to accept, any fee for the use of the premises by any other person or entity, whether or not such use has been

characterized as a sublease, unless such use has been approved by the director.” The General Manager has not approved a sublease for MCI.

In 2007 COFEM moved into offices at El Pueblo. COFEM signed a MOU with MCI in 2007 to use offices on the first and fifth floors and the basement. COFEM has told us that up to last year COFEM paid \$10,000 to MCI to support joint programming of events. There is at least the appearance that MCI is doing a sublease.

It appears that the City receives little benefit from MCI. During the course of fieldwork, the auditors observed that MCI offices were closed, except for on one occasion. Also, MCI sells artwork in the basement, but the City does not participate in these profits to this organization.

According to the MCI lease, its El Pueblo premises are to be used for “educational and cultural programs, promotional activities, technical assistance, and related activities and no other purpose.” COFEM appears to have used their resources to promote activities outside of the mission of El Pueblo. For example, COFEM has sent an email to leaders and members of the community urging them to contact their Senators to ask them to vote in favor of legislation. We observed that COFEM has posted signs at El Pueblo offering for \$150 citizenship classes to do paperwork, photographs and preparation. Another sign posted offered to do paperwork for \$25, photos for \$10 and Immigration and Naturalization Services for \$675. COFEM distributed leaflets at El Pueblo to encourage participation in the May Day march.

MCI/COFEM occupies 8,160 square feet in the basement, and in the 1st, 2nd & 5th floors of the Biscailuz Building. If MCI’s offices were leased, El Pueblo could earn an estimated \$147,000 per year in rent.

Plaza Community Center (Methodist Church)

Plaza Community Center had a 50-year lease that expired in 2006. The City received no rents, and there were no requirements to offset rent. The Methodist Church space was being subleased to the Church of the City Ministries, which was not allowed in the lease or approved by El Pueblo, but this was stopped in December 2008. Plaza Community Center still uses the building but it needs major renovations.

1. Non-profits that exist solely to support El Pueblo

Friends of the Chinese American Museum (FCAM)

FCAM has a functioning and viable museum at El Pueblo, has renovated its space and has raised significant funds. FCAM has five employees working in the Biscailuz building, and they are using two offices of about 1,000 square feet. The use of office space is not covered in the cooperation agreement or any other agreement with the City. El Pueblo staff have played a significant role in the development of the Chinese American Museum, and El Pueblo management has allowed FCAM employees to use

office space without first getting lease agreements. El Pueblo is preparing to negotiate a new agreement with FCAM, according to management.

The Historic Italian Hall Foundation

The Historic Italian Hall Foundation has a Cooperation Agreement signed by the City and the Foundation in 2001. However, the City Attorney did not sign the document to show they had approved it as to form and legality. The agreement says that each year the Foundation shall provide the City a financial report with an income statement and balance sheet, and amounts received as restricted funds and amounts expended from such funds, and a schedule of compensation for Foundation employees. These reports have not been provided to El Pueblo. The Italian Hall building needs structural repairs to get a certificate of occupancy.

Recommendations

El Pueblo management should:

- 8. Enforce all contract requirements such as non-use of premises, subleasing of premises, or failure to obtain an agreement with the City to occupy the premises.**
- 9. Monitor non-profits to ensure that these organizations provide value to the City and that their activities coincide with El Pueblo's mission.**
- 10. a) Reassess the agreements for services provided by the three non-profit organizations that do not have current agreements for the purpose of either seeking a new tenant(s), or negotiating a new lease/agreement with these non-profit organizations. If a decision is made to negotiate new agreements with these non-profit organizations, the agreements should include:**
 - The space occupied by the non-profit, the use of utilities and other El Pueblo resources, the financial value of the space occupied, and the in-kind contributions required to occupy the space.**
 - Submission of annual statements of in-kind contributions with the assessed value of the in-kind contributions.**

b) If a decision is made to seek new tenants, the physical condition of these buildings should be considered when seeking market rates.
- 11. Ensure, on an annual basis, that non-profits do not have a delinquent registration status and that the non-profit has filed their Annual Registration Renewal Fee Report (RRF-1) and a copy of the IRS Form 990, if needed, with the State Attorney General's Office.**

Finding #6: El Pueblo lacks monitoring to ensure that merchants who signed lease or concession agreements or pay rents are authorized tenants. The Department has not had a process to routinely verify tenancy, although it has recently sent letters to merchants to confirm tenancy.

Section 5 of the Concession Agreements requires that the agreement be issued only to the agreement holder, whose rights and obligations cannot be transferred or assigned without the City's prior written consent. This consent is given or withheld in accordance with the Board report referring to assignment of concession agreements to a family member of the current tenant. This Board report states that before a contract can be amended to add a family member, management and the Board must approve it. After that approval and the contract amendment, then succession to a family member occurs when the original signatory retires. The Concession Agreement says that any attempt to transfer the agreement without the prior written consent of El Pueblo management will automatically terminate the agreement.

In our sample of merchants, we found six cases where concession agreements were apparently assigned by prior merchants to the current merchants, but there is no evidence of prior management approval. Records show that several years ago, there were sales by prior tenants of assignments of concession agreements for up to \$150,000. We also found nine cases where El Pueblo approved an assignment to a new tenant; however the City Attorney's signature is not on the assignment document. According to the City Attorney's Office, at a minimum, El Pueblo management, the El Pueblo Commission and the City Attorney's Office must sign an assignment of a concession agreement or lease for it to be valid.

By allowing the transfer of concession agreements from the existing merchants to parties of their choice, there is a risk that the City will lose control over the process of managing the properties, that payments will occur between the parties without the City's knowledge, and that the City will not obtain the best rates available such as would occur with the RFP process. According to management, there is a waiting list of 106 interested parties to rent space at El Pueblo. By not putting spaces out to bid as existing merchants leave, which is the current City policy, the City may be collecting less rent than it otherwise could.

In addition, we found one merchant paying \$316 less per month than agreed to in their concession agreement. Because of incomplete records, El Pueblo management could not explain why and when the variances began, but management stated this underpayment has occurred for at least ten years.

Recommendations

El Pueblo management should:

- 12. Determine the validity of assignments for all merchants, in consultation with the City Attorney's Office.**
- 13. Require certification at least annually to ensure current merchants are valid in accordance with concession agreements.**
- 14. In accordance with City policy, put all newly available spaces out to competitive bid.**
- 15. Charge the correct rental rates in concession agreements to merchants, unless documentation can be found indicating that lower rates were approved.**

Finding #7: Management has not enforced public area rules and regulations regarding encroachment, hours of operation and types of merchandise sold. Regular inspections of merchants and citations of violations have not been completed.

El Pueblo has established Public Area Rules and Regulations, concerning maintenance and operation of premises, encroachment and the display of merchandise. El Pueblo staff is to conduct regular inspections to verify compliance, and violators should receive a written citation. If a merchant receives three citations during a six-month period, they are required to meet with El Pueblo to resolve differences. Continued violation leads to a 30-day notice of default and eviction.

During our walkthroughs of the Monument throughout the audit, we have noted shops not open during regular business hours, shops that have merchandise extended beyond the allowed 18 inches from the business, and businesses selling merchandise that does not fit the Olvera Street theme of a Mexican marketplace. The merchandise includes Bart Simpson dolls, Marilyn Monroe posters and tourist souvenirs that are sold across Southern California.

In the past, El Pueblo has inspected merchant premises for violations, but only recently during the course of this audit have written notices of violations to merchants been given. The inspections themselves were not documented. Auditor observations indicate that violations of these rules have continued. On February 2, 2009, El Pueblo management issued a memo to merchants to reinforce the regulations and to notify the merchants that El Pueblo would begin aggressively enforcing the rules within 60 days. According to management, since April 1, 2009, violations have been reported to the El Pueblo Commission.

Recommendation

- 16. El Pueblo management should conduct regular and documented inspections of its merchants for compliance with public area rules and regulations. Violators should be issued written citations.**

Finding #8: El Pueblo could reduce expenditures by contracting out events held by the Olvera Street Merchant Association Foundation. El Pueblo may be able to generate revenue by competitively bidding for these events.

El Pueblo has for years paid \$50,000 annually to the Olvera Street Merchant Association Foundation (OSMAF) to put on the following traditional events:

1. Dia de los Muertos
2. Virgen de Guadalupe
3. Las Posadas
4. Los Tres Reyes
5. La Candelaria
6. Mardi Gras Children's Workshops
7. Blessing of the Animals
8. Olvera Street Anniversary
9. Flower/Picture Day

The majority of the \$50,000 for these traditional events go to the businesses of the merchants themselves since OSMAF pays various vendors/merchants in support of the events. For example, this year, one Olvera Street merchant has received \$2,070 for catering; another has received \$1,200 for supplies.

The agreement with OSMAF requires them to "provide planning, coordination, production, and program design" for the event. However, much of this work falls on City staff. The City incurs additional expenses for staff time of El Pueblo, the General Services Department and the Recreation and Parks Department. If the events were contracted out, it would be the responsibility of the event promoter to administer the event. For example, for the Virgen de Guadalupe event that was contracted out to an independent promoter in 2007, the revenue generated for the City was nearly \$8,000 plus an additional \$11,000 in parking fees. When OSMAF held the event, estimated El Pueblo and pertinent City costs were \$34,000, and no revenues were received.

The City is obligated to ensure that its funds are not misspent and generally benefit taxpayers, not selected commercial ventures. The City's Request For Proposal process addresses this obligation. Except for government events and El Pueblo promotions, most of the other approximately 110 events at El Pueblo each year require fees to be paid by the event promoters. These fees benefit El Pueblo and reduce the amount paid from the General Fund to support El Pueblo. Promoters are responsible for costs such as cleaning, additional security, repair of damage to facilities and staff overtime.

According to management, if events were contracted out, the City's costs would be minimal.

Recommendation

- 17. El Pueblo management should analyze and report the cost effectiveness of contracting with OSMAF versus putting traditional events out to bid.**

SECTION III. INTERNAL CONTROLS

Finding #9: Historical artifacts held by El Pueblo have not been completely inventoried. The last complete physical inventory was in 1991.

El Pueblo's historical artifact collection contains more than 15,000 objects. The research and archival collection has more than 12,000 photographs, historic documents, books, records, maps and architectural drawings. There are also archeological materials from excavations from the El Pueblo area. Items are kept at museums, a storage facility and a building on-site. Items at the on-site building are contaminated.

The Department has not completed a complete physical inventory of historical artifacts since 1991. In 2008, the Department began using PastPerfect to catalog its collections, but only 3,600 items are in the database. Many of the items in the database were copied over from the 1991 inventory, and the Department has not physically verified their existence. Also, many items such as archeological materials have never been cataloged. Some items may have little to no financial value, but may have historical value. Without a complete periodic physical inventory, El Pueblo cannot know what is in its collections or if items are missing. The Department stated that for several years, it has been engaged in an ongoing effort to catalog the collections. However, management stated that it has limited staffing for this effort.

Recommendations

El Pueblo management should:

- 18. Continue its efforts to complete the cataloging of historical artifacts. Periodic physical inventories should be done of collections, with a priority placed on items believed to be of higher value.**
- 19. Decontaminate items at the on-site storage area and move them to a more suitable location.**

Finding #10: El Pueblo cannot account for equipment listed in its inventory. The Department does not conduct periodic physical inventories of equipment items.

Section 2.4 of the Controller's User Department Manual requires departments to update fixed asset inventory records at least once a month when an asset is received or disposed. It also requires departments to complete a biennial inventory of all equipment items to verify the correctness of the inventory records. Physical inventories can help identify assets that have been lost or stolen.

As discussed below, El Pueblo does not properly account for equipment items:

Equipment Items in CAMS

The Centralized Asset Management System (CAMS) shows that the Department has 12 equipment items that were purchased for \$106,000. The Department is not able to locate nine of these items (costing \$63,000). Although these items are fully depreciated, they have to be replaced at market value. The Department also possesses five electric carts that are not reflected in CAMS, and the Department's pick-up truck has a different ID# from the one recorded in CAMS.

The Department stated that most of the 12 equipment items shown on CAMS would be used by Department of General Services (GSD) staff that is responsible for maintaining El Pueblo. Consequently, El Pueblo does not keep track of these items and does not know whether they exist, even though Department management signed the annual CAMS Reconciliation Report for Capitalized Assets on September 30, 2008, indicating that the Department's inventory records were complete and correct, and the assets were held by the Department.

Management stated that it will now track all equipment items. They stated that many of the items reflected in CAMS were acquired before 1994, when El Pueblo became a City department.

Computer Equipment in SOS

The ServiceDesk Online System (SOS) shows that El Pueblo has 133 computer equipment items. We noted that approximately 55 items on the list show an acquisition date of 1993. It is unlikely that most of these items would be in use 15 years after purchase. We also physically observed a sample of 13 equipment inventory items. Only five items could be traced to SOS, indicating that the list is not kept up to date.

El Pueblo acknowledged that the SOS is not always updated to reflect acquisitions and dispositions. The Department also indicated that many of the items on the list are no longer used by staff and are probably no longer at El Pueblo.

We also noted that El Pueblo purchased two desktops, two monitors and one laptop in June 2008 for \$2,680. The computer equipment is not in use because the computers are installed with the Vista operating system, which is not supported by the City's Information Technology Agency (ITA), and El Pueblo does not have the technical knowledge to install a different operating system.

Recommendations

El Pueblo management should:

20. Update its equipment records in the Centralized Asset Management System and the ServiceDesk On Line system whenever the Department acquires or dispositions equipment.
21. Conduct documented biennial inventories of equipment items, as required.
22. Take appropriate action to install a different operating system on the two unused computers.

Finding #11: El Pueblo can strengthen controls over the payroll and collections processes.

In general, we found that the Department had adequate controls over the payroll and collections processes. For example, we noted that all overtime was pre-approved. We also found, based on our samples, that manual timecards for part-time employees were entered correctly into D-time. However, our audit noted a few areas where improvements can be made.

Overtime Authorizations

Our testwork did not disclose any instances where overtime had not been properly approved. However, the Department had some difficulties in providing the supporting e-mails because they are not stored electronically in a central location. Since the General Manager or designee is the last approver of each overtime request, the Department could improve its documentation and reconciliation process (discussed below) by having the General Manager/designee send a copy of the e-mail to a central location (e.g. a secretary's e-mail address).

We also noted that the Department does not reconcile the overtime approvals to Payroll reports showing employees who have received overtime. Such a reconciliation would help ensure that employees/supervisors are following established overtime procedures.

Payroll Payoffs

Section 4.7.1 of the Controller's User Manual requires departments to conduct a biannual payroll payoff by an individual independent of payroll and personnel responsibilities. Under the payoff, warrants/notices of distributions are not released until the employee presents proper identification (e.g. driver's license). The purpose of the payoff is to ensure there are no unauthorized employees on the payroll.

El Pueblo does not conduct the required payoffs. With a department the size of El Pueblo, an actual payoff may not be necessary. As an alternative, the Department could periodically review payroll reports to ensure that all employees listed on the payroll are bona fide.

Cash Register Tapes

The Visitor's Center, which sells mostly books, collects about \$8,000 per year. At the end of each day, the cashier cuts the cash register tape with scissors and provides the tape to the Accounting Section to report the daily sales. Under this process, there is a risk that part of the tape that includes part of the day's sales will not be turned into the Accounting Section.

Recommendations

El Pueblo management should:

- 23. Maintain a centralized electronic file of overtime approvals.**
- 24. Periodically reconcile overtime authorizations to payroll reports.**
- 25. Conduct surprise payroll payoffs by someone independent of payroll and personnel responsibilities or conduct a periodic review of payroll reports to verify that all employees listed on the payroll are bona fide.**
- 26. Ensure that the register tape at the Visitor Center is kept intact within the cash register. The Accounting Section can review these tapes at the Visitor Center to verify daily sales reported.**

Finding #12: Security can be improved at El Pueblo's Administrative Offices (Biscailuz Building).

The Biscailuz Building houses the offices for El Pueblo administration, Department of General Services personnel, MCI, COFEM, FCAM, meeting rooms, and an art gallery in the basement. El Pueblo uses a private security force hired by the Department of General Service which patrols the entire Monument. Thus, there is not a full time security guard to monitor traffic (e.g. tenants and the public) going into the building.

Our review of incident reports disclosed numerous security incidents at the Monument throughout the year, including thefts and assaults. Some of the incidents were inside, or directly outside, the Biscailuz Building.

We observed on random days in February through May 2009 that the MCI offices on the first floor, which are adjacent to the public entrance, are almost always unoccupied. We also observed that the basement, which has an art exhibit belonging to MCI, is usually unlocked and unoccupied. The City could be potentially liable for missing artwork.

Management agrees that security at the building could be improved. Management stated that it has taken steps to improve security at the building, including issuing alerts, preparing daily incident reports, giving communications devices to personnel, meeting monthly with LAPD, changing building locks and preparing procedures for emergencies. However, we believe that additional security presence at the building is warranted.

Recommendation

- 27. El Pueblo management should consult with the Department of General Services on the feasibility of having a greater security presence at the Biscailuz Building entrance.**

Finding #13: El Pueblo management did not complete the Internal Control Certification Program (ICCP) report for fiscal year 2007-08.

Departmental management is responsible for ensuring that their department's internal control structure is sound and functioning as planned. Strong internal controls provide management with assurances that operations are functioning as they should and that threats to successful performance will be timely identified and addressed, thereby reducing the risk of error, fraud, and other improper activities.

Introduced in 1993, the Internal Control Certification Program (ICCP) is designed to help departmental management ensure their department has strong internal controls. Under the ICCP, every three years, departments are required to self-evaluate their internal controls by completing a questionnaire for ten different financial/operational control areas, such as revenues, expenditures, payroll, and inventories. Departments then certify that the process has been completed. For any weaknesses identified, a corrective action plan should also be submitted.

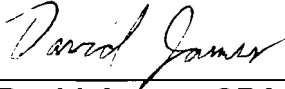
The fiscal year 2007-08 ICCP was due to the Controller's office on February 15, 2008. Since El Pueblo had not submitted its certification, in June 2008, the Audits and Governmental Efficiency Committee requested El Pueblo to complete the document. On June 20, 2008, the Department responded that it was understaffed but estimated that it would be completed by September 30, 2008.

As of early 2009, El Pueblo still had not completed the ICCP. If the Department had completed the ICCP, it may have been able to identify some of the problems identified in this audit. Management stated that it has now completed the ICCP and will submit the required certification and related documents to the Controller's Office.

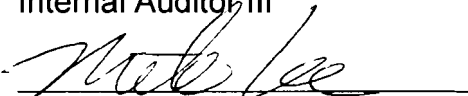
Recommendation

28. El Pueblo management should complete the Internal Control Certification Program and submit the ICCP certification to the Controller's Office by the established deadlines.

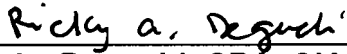
Respectfully submitted,



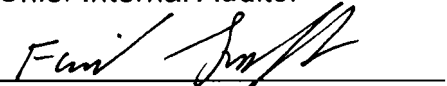
David James, CPA, CIA, CISA
Internal Auditor III



Mike Lee, CPA, CIA
Chief Auditor



Ricky Deguchi, CPA, CIA, CISA
Chief Internal Auditor



Farid Saffar, CPA
Director of Auditing

May 29, 2009

3	<p>El Pueblo does not bill merchants for the full cost of maintaining common areas. Consequently, the Department is losing potential revenue of \$295,961 per year.</p>	<p>U</p> <p>N</p>	<p>El Pueblo management should:</p> <ol style="list-style-type: none"> 4. Adjust annually CAM fees for merchants to keep pace with CAM expenses that El Pueblo incurs. Seek comparable in-kind contributions for non-profits to help cover CAM costs. CAM fees should be based on square footage used by merchants. 5. Prepare an annual statement of all CAM expenses, with input from GSD and RAP, and distribute copies of this statement to every tenant annually. This statement should be reasonably detailed, showing the tenant's share of the actual common area maintenance expenses incurred during the proceeding year.
4	<p>El Pueblo does not have a master list of properties with accurate square footage for adequate management.</p>	<p>U</p> <p>N</p>	<p>El Pueblo management should:</p> <ol style="list-style-type: none"> 6. Complete the CAM survey using industry standards. 7. After the CAM survey has been completed, create a master list and/or database of every building and usable interior space at El Pueblo which contains accurate square footage data for each space.
	<p>Section II. Contract Monitoring</p>		
5	<p>There is a lack of oversight of non-profit organizations using El Pueblo. Some non-profits are not in compliance with their agreements or do not have current agreements. Other non-profits do not appear to be providing sufficient in-kind contributions for the value they receive from the City.</p>	<p>U</p> <p>U</p>	<p>El Pueblo management should:</p> <ol style="list-style-type: none"> 8. Enforce all contract requirements such as non-use of premises, subleasing of premises, or failure to obtain an agreement with the City to occupy the premises. 9. Monitor non-profits to ensure that these organizations provide value to the City and that their

		N	<p>activities coincide with El Pueblo's mission.</p> <p>10.a) Reassess the agreements for services provided by the three non-profit organizations that do not have current agreements for the purpose of either seeking a new tenant(s), or negotiating a new lease/agreement with these non-profit organizations. If a decision is made to negotiate new agreements with these non-profit organizations, the agreements should include:</p> <ul style="list-style-type: none"> • The space occupied by the non-profit, the use of utilities and other El Pueblo resources, the financial value of the space occupied, and the in-kind contributions required to occupy the space. • Submission of annual statements of in-kind contributions with the assessed value of the in-kind contributions. <p>b) If a decision is made to seek new tenants, the physical condition of these buildings should be considered when seeking market rates.</p>
		D	<p>11. Ensure, on an annual basis, that non-profits do not have a delinquent registration status and that the non-profit has filed their Annual Registration Renewal Fee Report (RRF-1) and a copy of the IRS Form 990, if needed, with the State Attorney General's Office.</p>

6	<p>El Pueblo lacks monitoring to ensure that merchants who signed lease or concession agreements or pay rents are authorized tenants. The Department has not had a process to routinely verify tenancy, although it has recently sent letters to merchants to confirm tenancy.</p>	<p>N</p> <p>N</p> <p>N</p> <p>N</p>	<p>El Pueblo management should:</p> <p>12. Determine the validity of assignments for all merchants, in consultation with the City Attorney's Office.</p> <p>13. Require certification at least annually to ensure current merchants are valid in accordance with concession agreements.</p> <p>14. In accordance with City policy, put all newly available spaces out to competitive bid.</p> <p>15. Charge the correct rental rates in concession agreements to merchants, unless documentation can be found indicating that lower rates were approved.</p>
7	<p>Management has not enforced public area rules and regulations regarding encroachment, hours of operation and types of merchandise sold. Regular inspections of merchants and citations of violations have not been completed.</p>	<p>N</p>	<p>16. El Pueblo management should conduct regular and documented inspections of its merchants for compliance with public area rules and regulations. Violators should be issued written citations.</p>
8	<p>El Pueblo could reduce expenditures by contracting out events held by the Olvera Street Merchant Association Foundation. El Pueblo may be able to generate revenue by competitively bidding for these events.</p>	<p>N</p>	<p>17. El Pueblo management should analyze and report the cost effectiveness of contracting with OSMAF versus putting traditional events out to bid.</p>

		N	26. Ensure that the register tape at the Visitor Center is kept intact within the cash register. The Accounting Section can review these tapes at the Visitor Center to verify daily sales reported.
12	Security can be improved at El Pueblo's Administrative Offices (Biscailuz Building).	N	27. El Pueblo management should consult with the Department of General Services on the feasibility of having a greater security presence at the Biscailuz Building entrance.
13	El Pueblo management did not complete the Internal Control Certification Program (ICCP) report for fiscal year 2007-08.	N	28. El Pueblo management should complete the Internal Control Certification Program and submit the ICCP certification to the Controller's Office by the established deadlines.

Description of Recommendation Ranking Codes

U- Urgent- 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.

N- Necessary- 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.

D- Desirable- 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