



OFFICE OF  
CONTROLLER

LAURA N. CHICK  
CONTROLLER

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

August 27, 2008

The Honorable Antonio Villaraigosa  
The Honorable Rockard J. Delgadillo  
The Honorable Members of the Los Angeles City Council

The City of Los Angeles has nearly 700 special revenue funds which have dedicated funding sources and specific uses. I have been critical of the over abundance of separate fund accounts because money easily gets "lost" in them, remaining unspent and thus wasted. A perfect example of this is the Department of Public Works' special revenue funds with \$3.8 million sitting inactive which should be transferred to the General Fund.

Government is always trying to find ways to pay for providing basic services to the public. There is no reason that millions of dollars should sit gathering dust especially when we are seeking to raise fees and taxes on the public.

City Departments should review all of their special revenue funds on a quarterly basis to determine that the dollars are being correctly used, whether the fund is still necessary and to close the account if it is not.

Sincerely,

A handwritten signature in cursive script that reads 'Laura N. Chick'.

LAURA N. CHICK  
City Controller



OFFICE OF  
CONTROLLER

LAURA N. CHICK  
CONTROLLER

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

August 27, 2008

Cynthia M. Ruiz, President  
Board of Public Works  
Room 361, City Hall  
200 North Spring Street  
Los Angeles, CA 90012

Dear Ms. Ruiz:

Enclosed is a report entitled "Special Revenue Fund Audit at the Department of Public Works." A draft of this report was provided to your office on August 15, 2008. Comments provided by your Department at the meeting held on August 20, 2008 were evaluated and considered prior to finalizing the report.

Please review the final audit report and advise the Controller's Office by September 29, 2008 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,

*Sr. Farid Saffar*  
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  
Nancy H. Sutley, Deputy Mayor, Office of the Mayor  
Raymond P. Ciranna, Interim City Administrative Officer  
Karen E. Kalfayan, Interim City Clerk  
Gerry F. Miller, Chief Legislative Analyst  
James A. Gibson, Executive Officer, Board of Public Works  
Independent City Auditors



# **City of Los Angeles Office of the Controller**

---

## **Special Revenue Fund Audit at the Department of Public Works**

**August 27, 2008**

**Laura N. Chick**  
City Controller

---

## TABLE OF CONTENTS

---

I.	EXECUTIVE SUMMARY.....	1
II.	BACKGROUND AND METHODOLOGY.....	6
III.	AUDIT FINDINGS AND RECOMMENDATIONS.....	7
	APPENDIX A – RANKING OF RECOMMENDATIONS.....	19
	APPENDIX B – LIST OF 29 SELECTED FUNDS.....	21

# **SPECIAL REVENUE FUND AUDIT AT THE DEPARTMENT OF PUBLIC WORKS**

---

## **EXECUTIVE SUMMARY**

---

The Audit Division has completed an audit of selected special revenue funds managed by the Department of Public Works (DPW or Department). The primary objectives of the audit were to: 1) evaluate the adequacy of internal controls over the financial management of the selected funds; 2) determine if transactions are made in accordance with the specific purposes allowed by applicable policies, laws, regulations and/or Ordinances creating the funds; 3) determine whether the conditions or circumstances reasonably warranted the creation of the fund.

### **Background**

The purpose of a special revenue fund is to account for the proceeds of specific revenue sources (other than sources for major capital projects) that are legally restricted to expenditures for specified purposes. The Department of Public Works manages over 250 special revenue funds with a total balance of \$1.2 billion. The majority of these funds are used to account for MICLA funds and bond funds. With the exclusion of these funds, which have a lower audit risk, our audit universe consisted of 57 special revenue funds with a balance of \$334 million as of February 28, 2008.

### **Scope**

Of the 57 funds that were part of our audit universe, we reviewed 29 funds. We selected these funds based on a risk assessment, which considered factors such as the balance of the fund, degree of oversight over fund transactions, and the fund's financial activity. Our audit was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS) and covered the period from July 1, 2005 through March 31, 2008.

### **Summary of Audit Results**

In general, the Department of Public Works has adequate internal controls over the financial management of its active funds. For example, budgets for most of the sampled funds were reasonable and we did not note any inappropriate expenditures from the funds. In addition, we noted that funds were created to account for specific activities, as required by the Ordinances.

However, we noted that the Department of Public Works lacks oversight over inactive funds. In addition, the lack of program oversight over the Griffith Observatory Trust Fund resulted in \$193,009 in interest being unnecessarily returned to the State, as well as not properly accounting for City labor expenses for the Griffith Observatory project. Lastly, for the Central LA Recycling and Transfer Station Trust Fund, the Department does not perform a thorough review of open encumbrances at year end to determine if any amounts should be disencumbered.

In summary, we identified \$3.8 million in funds that can be transferred to the General Fund. During our audit, the Department transferred \$157,196 of this amount based on our findings. In addition, we identified \$521,860 that has been remained idle in special revenue funds for several years. The Department should attempt to locate the individuals who paid the funds. If the Department is unable to locate the individuals or is unable to identify who paid the monies, the funds should be escheated to the General Fund.

### **Key Findings**

- We identified \$957,852 sitting idle in inactive trust funds. The Department does not actively monitor the funds to determine why funds have remained inactive for extensive periods. Of the \$957,852, \$435,992 can be transferred to the General Fund. The remaining \$521,860 could also potentially be escheated to the General Fund if DPW is unable to locate or identify the individuals who paid the monies.**

Of the 29 special revenue funds covered by our review, we identified 19 funds that have had no deposits or expenditures for at least three years. Of these 19 funds, 13 with a total balance of \$411,713 have been inactive for at least ten years, including two that have been inactive for over 20 years.

Of the 19 inactive funds, our review disclosed \$435,992 related to ten funds that could be transferred to the General Fund, and all but one fund can be closed. During our review, the Department transferred \$157,196 of the \$435,992 to the General Fund as a result of our inquiries. The Department has also agreed to transfer an additional \$278,796 to the General Fund. The \$435,992 can be transferred to the General Fund because either the original source of funds for the special revenue funds was from the General Fund or because, in general, the General Fund incurred expenditures on behalf of the special revenue fund but was not reimbursed by the fund.

We also identified \$521,860 related to six inactive funds where the Department could potentially escheat the funds to the General Fund if DPW is unable to locate or identify the individuals who paid the monies.

- **Due to poor program oversight, the Department did not charge \$5.4 million in labor costs against the Griffith Observatory Trust Fund. Also, the Department had to return \$193,000 in interest to State because it did not submit the close-out report for the Griffith Observatory project in a timely manner.**

In 2002, my Office performed a review of capital construction activities at the Zoo and Recreation and Parks. Overall, the review found that projects were not properly managed. One key finding was that monthly project status reports are not updated or are not accurate enough to be relied upon for management review and input. One recommendation was for the project cost sheets to reflect all funds used to aid in budget to actual comparisons.

Despite the recommendations from the 2002 report, our review of the Griffith Observatory Trust Fund and the related Griffith Observatory project disclosed similar problems. For example, labor costs (City salaries and related costs) were initially budgeted at \$3.1 million. This amount was exceeded in March 2005, and as of June 2007, \$5.4 million in labor costs had been incurred. However, the overall project budget was never adjusted and additional funding to cover the additional costs was not sought. The June 2007 monthly status report still reflected budgeted labor of \$3.1 million.

The Department also never charged labor costs against the Griffith Observatory Trust Fund by reimbursing the General Fund for the labor costs. This resulted in a balance being accumulated in the fund. Since the Griffith Observatory Project is now complete, the \$3.3 million can be transferred to the General Fund.

Finally, the Department had to return to the State, \$193,000 in interest earned on advanced funds because it did not submit the close-out report for the Griffith Observatory project in a timely manner. If the Department had charged the labor costs against the Griffith Observatory Trust Fund, the amount of interest earned would have been less, which would have reduced the amount paid back to the State.

- **The Department did not review outstanding encumbrances in the Central LA Recycling and Transfer Station Trust Fund to determine whether any encumbrances could be disencumbered. As a result, the Department did not revert \$424,000 in funds to the General Fund in a timely manner.**

The Administrative Code requires that unspent monies in this fund at fiscal year end be reverted to the General Fund. At the end of fiscal years 2004-05 through 2006-07, DPW reverted a total of \$1,913,616 to the General Fund. The amounts reverted were based on the available cash balance, net of encumbrances, at the end of each fiscal year. However, the amounts reverted were understated by \$424,804 because the Department did not review outstanding encumbrances at the end of each fiscal year. The Department disencumbered the \$424,804 in April 2008.

## **Review of Report**

We met with DPW management on August 20, 2008 to discuss the contents of the audit report. Department management generally agreed with the findings and recommendations. We would like to thank the Department management and staff for their cooperation and assistance during the audit.

**TABLE of RECOMMENDATIONS**

	<b>RECOMMENDATIONS</b>	<b>PAGE REFERENCE</b>
	The Department of Public Works should:	
1	Establish a mechanism and develop periodic status reports to properly track inactive special revenue funds.	12
2	Transfer \$435,992 (including the \$157,196 already transferred) from ten inactive funds to the General Fund, and close all but Fund #40V.	12
3	Attempt to locate the individuals who paid the \$521,860 remaining in six inactive drainage district funds. If DPW is unable to locate or identify the individuals who paid the monies, the \$521,860 should be escheated to the General Fund.	12
4	Report actual costs for its projects and seek additional funding when actual costs exceed the budget.	14
5	Determine whether there are any other situations where the General Fund is not being reimbursed by special revenue funds for eligible labor costs paid by the General Fund.	14
6	Transfer \$3.3 million from the Griffith Observatory Trust Fund to the General Fund and close the fund.	14
7	Submit required financial status reports to Council and the Mayor for the Central LA Recycling and Transfer Station Trust Fund (Fund #47R) and the Integrated Solid Waste Management Trust Fund (Fund #556).	16
8	Develop more realistic budgets of Street Damage Restoration Fee revenues which are based on historical data.	17
9	Establish procedures which ensure that the Department conducts a periodic and thorough review of open encumbrances in the Central LA Recycling and Transfer Station Trust Fund to identify those that should be disencumbered.	18

---

## **BACKGROUND AND METHODOLOGY**

---

### **BACKGROUND**

The purpose of a special revenue fund is to account for the proceeds of specific revenue sources (other than sources for major capital projects) that are legally restricted to expenditures for specified purposes. The Department of Public Works manages over 250 special revenue funds with a total balance of \$1.2 billion. The majority of these funds are used to account for MICLEA funds and bond funds. With the exclusion of these funds, which have a lower audit risk, our audit universe consisted of 57 special revenue funds with a balance of \$334 million as of February 28, 2008.

### **OBJECTIVES, SCOPE AND METHODOLOGY**

The objectives of this audit were to:

1. Evaluate the adequacy of internal controls over the financial management of the selected special revenue funds (e.g., timely and accurate reconciliations, separation of duties, budgeting for funds).
2. Determine if transactions (deposits, expenditures, and transfers) are made in accordance with the specific purposes allowed by applicable policies, laws, regulations and/or ordinances creating the funds.
3. Determine whether the conditions or circumstances reasonably warranted the creation of the fund.

Of the 57 funds that were part of our audit universe, we reviewed 29 funds. We selected these funds based on a risk assessment, which considered factors such as the balance of the fund, degree of oversight over fund transactions, and the fund's financial activity. The 29 funds are listed in Appendix B.

The audit was performed in accordance with Generally Accepted Government Auditing standards and covered the period from July 1, 2005 through March 31, 2008. Fieldwork was conducted between April 2008 and July 2008.

In conducting our audit, we interviewed management and staff and reviewed applicable laws, regulations, and Departmental procedures to obtain an understanding of the various special revenue funds and the Department's controls over these funds. We then selected sample transactions to determine whether the Department is complying with prescribed laws and policies.

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

---

## AUDIT FINDINGS AND RECOMMENDATIONS

---

### Section I. Management and Oversight

---

**Finding #1: We identified \$957,852 sitting idle in inactive trust funds. The Department does not actively monitor the funds to determine why funds have remained inactive for extensive periods. Of the \$957,852, \$435,992 can be transferred to the General Fund. The remaining \$521,860 could also potentially be escheated to the General Fund if DPW is unable to locate or identify the individuals who paid the monies.**

Of the 29 special revenue funds covered by our review, we identified 19 funds that have had no deposits or expenditures for at least three years. Of these 19 funds, 13 with a total balance of \$411,713 have been inactive for at least ten years, including two that have been inactive for over 20 years.

We researched the 19 funds to determine why they were inactive. Our review disclosed that the Department only monitors funds that are active. There are no reports produced that would help management identify inactive funds so they can investigate why they have had no deposits or expenditures. For example, the Department was not aware that the funds were inactive, and staff could not explain the purpose of several of these funds until after it had researched the relevant ordinances and the Department's records.

Of the 19 inactive funds, our review disclosed \$435,992 related to ten funds that could be transferred to the General Fund, and all but one fund can be closed. During our review, the Department transferred \$157,196 of the \$435,992 to the General Fund as a result of our inquiries. The Department has also agreed to transfer an additional \$278,796 to the General Fund.

We also identified \$521,860 related to six inactive funds where the Department could potentially escheat the funds to the General Fund if DPW is unable to locate or identify the individuals who paid the monies.

Following is a summary of the 16 inactive funds where monies should be returned to the General Fund or where DPW should attempt to refund the monies to individuals who paid the funds.

	<b>Fund No.</b>	<b>Fund Balance</b>	<b>Amount that can be transferred to General Fund or refunded</b>	<b>Amount transferred during the audit</b>	<b>Recommendation for fund</b>
1	895	\$278,796	\$278,796	\$0	Close
2	618	255,250	255,250	0	Refund
3	625	97,242	97,242	0	Refund
4	624	84,958	84,958	0	Refund
5	615	77,142	77,142	77,142	Close
6	623	61,304	61,304	0	Refund
7	662	29,992	29,992	29,992	Close
8	619	18,870	18,870	0	Refund
9	40V	18,063	11,286	11,286	Leave open
10	652	16,834	16,834	16,834	Close
11	247	9,582	9,582	9,582	Close
12	672	8,406	8,406	8,406	Close
13	629	4,236	4,236	0	Refund
14	632	2,427	2,427	2,427	Close
15	533	1,121	1,121	1,121	Close
16	630	406	406	406	Close
	<b>Total</b>	<b>\$964,629</b>	<b>\$957,852</b>	<b>\$157,196</b>	

Following is a discussion of these 16 inactive funds.

Citywide Council District Sidewalk Repair and Street Maintenance Trust Fund (Fund #895)

Pursuant to Ordinance 171030, the Citywide Council District Sidewalk Repair and Street Maintenance Trust Fund was established in 1996 to provide increased street maintenance services in each Council District in the form of sidewalk repairs, tree trimming and other street maintenance services. The initial fund balance of \$750,000 was obtained via a transfer from the General Fund in FY 1995-96. \$48,000 was allocated to each Council District for sidewalk repairs and \$30,000 was allocated to the Bureau of Street Services for equipment purchases.

As of 2003, \$467,526 had been expended and \$3,678 had been transferred to the General Fund, leaving a \$278,796 balance. In 2003, Council File 03-2066 authorized the transfer of the \$278,796 from Fund #895 to the Bureau of Street Services' operating budget for sidewalk repairs. The transfer was made, but it was reversed in 2004 because the monies were not spent. The unexpended amount of \$278,796 has been sitting idle in Fund #895 since then.

Since the Bureau of Street Services is already budgeted for the types of expenditures covered by Fund #895, we believe that the fund balance of \$278,796 should be transferred to the General Fund. DPW has agreed to make the transfer.

#### Westwood Village Tree Lighting Maintenance District Fund (Fund #615)

The Westwood Village Tree Lighting Maintenance District Fund was created in 1985 under Ordinance 160288 to install and maintain decorative tree lights during the Christmas season in the Westwood Village Tree Lighting Maintenance District. The fund received revenue from annual assessments on property owners through property tax bills. The fund has had no expenditures since 1994 and no receipts since 1999. The fund balance has been \$77,142 since 1999.

The \$77,142 should be transferred to the General Fund because the fund received a total of \$175,950 in advances from the General Fund in 1985 and 1986. Only \$75,950 was repaid to the General Fund, leaving an unpaid balance of \$100,000.<sup>1</sup> During our fieldwork, the Department transferred the \$77,142 to the General Fund after we inquired as to why the fund had been inactive so long.

#### Drainage District Funds (Fund #618, #619, #623, #624, #625, #629)

In the 1960s, the subdivision and development of property required the construction of local drainage facilities. Drainage district funds were established and a one-time fee was imposed on the developer to construct local drainage facilities within the drainage district.

In 1984, a drainage facilities maintenance district procedure was established under Chapter 7, Article 2 of the City of Los Angeles Administrative Code (Code). Section 6.340 of the Code allows the formation of districts within the City, which the cost of maintenance of drainage facilities should be paid for by the benefited property owners. Drainage district funds were used to collect assessments and pay the drainage maintenance expenditures in the assessment district.

In 1990, the Stormwater Pollution Abatement Fund (Fund #511) was established under Article 4.2 of the City of Los Angeles Municipal Code to assess a Stormwater Pollution Abatement charge on all properties in the City in order to treat and abate stormwater. The charge is based on stormwater runoff and pollutant loading associated with

---

<sup>1</sup> The \$75,950 was repaid to the General Fund between 1988 and 1993.

property size and land use. With the establishment of Fund #511, individual drainage district funds were no longer required.

Our review disclosed six drainage district funds that have been inactive for at least three years. Four of the funds have been inactive for over 15 years. The funds were inactive because the Department did not know the location of the drainage facilities related to the inactive funds, until it conducted research based on our inquiries. The Department would need to know the location of the facilities in order to charge expenditures against the funds. The following table shows details for the six drainage district funds.

Fund No.	Date Opened	Ordinance No.	Fund Name	Fund Balance	Last Activity
618	05/25/64	127393	Shoshone Avenue and Rinaldi Street Drainage District Fund	\$255,250	2005
619	11/25/64	128956	Winnetka Avenue and Devonshire Street Drainage District Fund	18,870	2003
623	11/17/65	130862	Terra Bella Street and Fenton Avenue Drainage District Fund	61,304	1991
624	11/22/68	137551	Mason Avenue and Lassen Street Drainage District Planned Local Drainage Facilities Fund	84,958	1990
625	11/22/68	137552	Vanalden Channel Drainage District Planned Local Drainage Facilities Fund	97,242	1987
629	11/20/64	128981	Sunland Boulevard and Apperson Street Drainage District	4,236	1987
			<b>Total</b>	<b>\$521,860</b>	

The Department would prefer to begin charging expenditures against the funds by reimbursing the General Fund for the expenditures. Based on current activities, it anticipates that with the exception of Fund #618 and #623, the fund balances would be utilized in one to three years. The Department estimates that it would take ten and thirty-eight years to utilize the fund balances in Fund #618 and #623, respectively. The Department stated that another option would be to transfer the \$521,860 to Fund #511 since this fund is also used to maintain stormwater drains.

DPW currently assesses a stormwater abatement fee on City residents, which includes the residents of the six districts. Since the purpose of this assessment is to cover the cost of maintaining stormwater drains, returning the \$521,860 to Fund #511 would result in “double charging” the residents. Therefore, we believe that DPW should attempt to locate the individuals who paid the \$521,860. If DPW is unable to locate or identify the individuals, the \$521,860 should be escheated to the General Fund.

Assessment District Funds (Fund #247, #630, #632, #533, #40V, #652, #662, #672)

Assessment District Funds were created in accordance with the Municipal Improvement Act of 1913, Division 12 of the Streets and Highways Code, to assess the district which was benefited by the work or improvement. According to Section 10427.1 of the Streets and Highways Code, if the surplus balance in the Assessment District Funds has not

been claimed after public notice, it can be transferred to the General Fund four years after the due date of the last installment upon the bonds or of the last principal coupon attached thereto.

We identified the following eight funds that have been inactive for ten or more years:

Fund No.	Date Opened	Ordinance No.	Fund Name	Fund Balance	Last Activity
247	before 1969	41060	Improvement Alley West of Gaffey South of 1st Street	\$9,582	1989
630	09/11/87	162800	Improvement for Vanowen Street Groundwater Fund	406	1991
632	before 1969	41060	Improvement Alley West of Grand South of Santa Cruz Street	2,427	1990
533	1986	160608	Venice Canals Rehabilitation Fund	1,121	1997
40V	12/16/97	171857	Alley Northwest of Jefferson Boulevard (Near Randall Street)	18,063	1998
652	10/18/95	170731	Improvement Alley South of Melrose Avenue (Near Kilkea Drive)	16,834	1998
662	6/19/96	171111	Alley West of Vermont Avenue (Near 8th Street)	29,992	1998
672	11/17/97	171794	Alley West of Beacon Street and South of 13th Street	8,406	1998
			<b>Total</b>	<b>\$86,830</b>	

We noted a memo dated July 25, 1997 from the City Engineer to the Bureau of Accounting stating that three funds (#247, #630, #632) had reached the last bond payment date and could be transferred to the General Fund in 2001 in accordance with the Streets and Highways Code. No action was taken by the Department of Public Works to transfer these funds until our inquiries into the status of these funds. During our fieldwork, the Department transferred these funds, along with Fund #533's balance to the General Fund. The total amount transferred was \$13,535.

For four additional funds (#40V, #652, #662, #672), DPW did not charge eligible incidental costs against the funds, until we inquired as to why the funds were inactive. Incidental costs are the costs incurred in constructing, completing and inspecting the project, including but not limited to printing, advertising, filing, and recording of documents. During our fieldwork, the Department charged incidental costs of \$66,518 which resulted in the same amount being transferred to the General Fund. These transfers could have occurred almost ten years ago and three of the funds could have been closed. After the \$66,518 transfer, Fund #40V still has a balance of \$6,777.

## Recommendations

The Department of Public Works should:

1. Establish a mechanism and develop periodic status reports to properly track inactive special revenue funds.
2. Transfer \$435,992 (including the \$157,196 already transferred) from ten inactive funds to the General Fund, and close all but Fund #40V.
3. Attempt to locate the individuals who paid the \$521,860 remaining in six inactive drainage district funds. If DPW is unable to locate or identify the individuals who paid the monies, the \$521,860 should be escheated to the General Fund.

**Finding #2: Due to poor program oversight, the Department did not charge \$5.4 million in labor costs against the Griffith Observatory Trust Fund. Also, the Department had to return \$193,000 in interest to State because it did not submit the close-out report for the Griffith Observatory project in a timely manner.**

## Background

In 2000, the City initiated a capital project to refurbish and expand the historic Griffith Observatory. The project was funded by various sources, including Proposition A, private donations, Proposition 40, State of California, City of LA MICLA funds, Proposition K, Capital Improvement Expenditure Plan, FEMA, and Proposition 12. In order to facilitate and streamline the process of generating financial support required for the project, the Griffith Observatory Trust Fund (Fund #46R) was created in 2003 under Section 5.115.7 of the Los Angeles Administrative Code. The purpose of the Fund is to account for receipts from the funding sources and to pay the costs and expenses related to capital improvements, furnishings and equipment for the Griffith Observatory, including the costs of services directly related to that work, whether performed by contractors or City staff. The fund is administered by the City Engineer in accordance with a detailed expenditure plan approved in advance by the L.A. for Kids Steering Committee.

The historical cash balances of the fund are as follows:

Date	6/30/2005	6/30/2006	6/30/2007	5/31/2008
Cash Balance for Fund 46R	\$7,051,620	5,746,379	7,253,058	\$6,189,326

The Griffith Observatory project was handled by the Department of Recreation and Parks from February 2000 until March 2002 but was taken over by the Bureau of Engineering (BOE) in April 2002 to provide better project management oversight. The Griffith Observatory was reopened to the public on October 30, 2006.

Each month, the BOE reported the budgeted cost, total expenditures, cost to completion, and the variance amount in monthly progress reports submitted to the Oversight Committee. The Oversight Committee members include the Mayor, the City Administrative Officer, and the Chief Legislative Analyst. The June 2007 report reflected the following information:

	Original Budget	Revised Budget	Total Expenditures as of 6/30/07	Cost to Completion	Estimated Total Costs	Variance
Griffith Observatory	\$64,270,197	66,524,371	55,798,754	10,725,617	66,524,371	\$0

### Inaccurate Reporting and Loss of Interest Income

A review of the Griffith Observatory project and the related special revenue fund disclosed the following:

- Budget documents prepared in 2004 show budgeted labor (City salaries and related costs) of \$3.1 million. This estimate was never revised to reflect actual costs. For example as of June 2007, actual labor costs incurred were \$5.4 million. However, the June 2007 monthly status report which showed a revised budget of \$66,524,371 still reflected labor costs of \$3.1 million. The Department had already exceeded the \$3.1 million budget as of March 2005.
- The \$5.4 million in labor costs have not been charged against the Griffith Observatory Trust Fund.<sup>2</sup> These costs should have been charged against the fund on an on-going basis. The failure to charge the labor costs has resulted in a \$3.3 million<sup>3</sup> balance remaining in the fund. This amount can now be transferred to the General Fund.

The Department stated that it did not charge the labor costs because it wanted to make sure that enough funds were available to pay all contractors for change orders before reimbursing the General Fund for the labor costs. In addition, the Department stated that it was verbally directed by the L.A. for Kids Steering Committee to ensure that the contractor was paid for all costs before charging labor costs to the fund.

- In May 2008, DPW returned \$193,000 to the State which represented the interest earned on advanced funds. The State requested that the monies be returned

<sup>2</sup> The fund would be charged by transferring monies to the General Fund to reimburse the General Fund for the labor costs.

<sup>3</sup> The estimated balance after final closeout change order.

because DPW did not submit its close-out report within 60 days of project completion, which the State considered to be the date that the Observatory opened to the public (October 30, 2006). DPW's definition of the completion date is when the project is accepted as complete by the Board of Recreation and Parks' commissioners.

In addition, if the labor costs had been charged against the Griffith Observatory Trust Fund on an ongoing basis, the amount of monies in the trust fund would have been less. This would have resulted in less interest being earned and having to be returned to the State.

Good project management dictates that all relevant project costs be captured and reported. Not reporting the actual costs of a project could lead to underestimated budgeted costs on future similar projects. If the project costs exceed budgeted costs, the Department should have reported the actual costs and sought additional funding for the project. It should be noted that my office conducted a review of construction activities at the Zoo and Recreation and Parks and noted similar problems with inaccurate monthly project reports that cannot be relied upon.

### **Recommendations**

**The Department of Public Works should:**

- 4. Report actual costs for its projects and seek additional funding when actual costs exceed the budget.**
- 5. Determine whether there are any other situations where the General Fund is not being reimbursed by special revenue funds for eligible labor costs paid by the General Fund.**
- 6. Transfer \$3.3 million from the Griffith Observatory Trust Fund to the General Fund and close the fund.**

---

## Section II. Budgeting, Accounting, and Compliance With Ordinances

---

### **Finding #3: The Bureau of Sanitation did not comply with reporting requirements specified in Ordinances.**

#### Central LA Recycling and Transfer Station Trust Fund (Fund #47R)

The Central LA Recycling and Transfer Station Trust Fund was established in 2004 under Section 5.540, Chapter 140 of the Administrative Code to account for the deposits and expenditures related to amounts collected from commercial and private haulers and other non-City entities utilizing the Central LA Recycling Transfer Station.

The Administrative Code also requires the Director of the Bureau of Sanitation to annually report the financial status of the Fund to the Department of Public Works, the City Council and the Mayor within 90 days after the close of the fiscal year.

We noted that the Bureau of Sanitation had prepared financial status reports for the Central LA Recycling and Transfer Station Trust Fund for FY 2004-05, FY 2005-06 and FY 2006-07 but did not submit the reports to the Department of Public Works, the City Council and the Mayor. The Bureau of Sanitation stated that the required reports were not submitted due to an oversight.

#### Integrated Solid Waste Management Trust Fund (Fund #556)

The Integrated Solid Waste Management Trust Fund was established in 1993 under Section 5.429, Chapter 52 of the Administrative Code for the receipt, retention and disbursement of grant and other monies and property accepted from persons other than the City by the Director of the Integrated Solid Waste Management Office. The Administrative Code states that the Director of the Integrated Solid Waste Management Office shall report annually the financial status of the Fund to the City Council and Mayor within 60 days after the close of the fiscal year.

The Department has not submitted the required financial status reports for the Integrated Solid Waste Management Trust Fund. The Department stated that one reason the reports have not been submitted is that during the past two years, it has been working with the City Administrative Office, the Chief Legislative Analyst, the Mayor's Office, City Attorney, and the Office of the Controller to set up an additional special revenue fund to better track and report the revenue streams for Fund #556.

**Recommendation**

7. **The Department of Public Works should submit required financial status reports to Council and the Mayor for the Central LA Recycling and Transfer Station Trust Fund (Fund #47R) and the Integrated Solid Waste Management Trust Fund (Fund #556).**

**Finding #4: The Department has significantly underestimated its revenues each year for the Street Damage Restoration Fee Fund.**

The Street Damage Restoration Fee Fund (Fund #41A) was created in 1998 under Section 5.121.6 of the Administrative Code for the purpose of receiving the street damage restoration fee. The fees are paid by entities that perform excavations on paved streets. The fee helps the City recover the cost of mitigating the damage caused by the excavation. The costs could include expenditures for street surfacing, resurfacing, repair and reconstruction, etc.

Each year, DPW estimates the revenue for Fund #41A. This estimate is budgeted as a source of funds for the Bureau of Street Services budget. Each month, DPW transfers 1/12 of the revenue estimate to the General Fund. For the following year, the amount budgeted as a source of funds for the Bureau of Street Services is determined by adding the estimated revenue for the new year to the beginning fund balance in Fund #41A.

We noted that for each of the last five years, actual revenue has far exceeded budgeted revenue for the Street Damage Restoration Fee Fund. For example, for FY 2002-03 through FY 2006-07, budgeted revenue has averaged \$1.1 million while actual revenues have averaged \$3.7 million. This is shown in the table below:

FY 2002-03		FY 2003-04		FY 2004-05		FY 2005-06		FY 2006-07		FY 2007-08	
Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Estimate
\$1,000,000	4,025,794	1,000,000	4,292,984	1,000,000	2,788,590	1,000,000	3,771,679	1,500,000	3,633,646	2,500,000	\$5,300,000

One effect of the understated revenue estimates is that revenue that should have been transferred to the General Fund during the year will not be transferred until the following year. Another effect is that it overstates the amount of General Fund dollars needed to balance the Bureau of Street Services' budget.

The Department stated that it is difficult to estimate the revenue for the fund. However, we noted that since FY 1998-99, the first year of the fund, revenues have been at least \$2.8 million a year (the average has been \$4.1 million), yet from FY 2002-03 through FY 2006-07, the highest budgeted figure was \$1.5 million. The Department also stated that it works closely with the City Administrative Officer to establish a budgeted revenue figure for the fund.

## Recommendation

- 8. The Department of Public Works should develop more realistic budgets of Street Damage Restoration Fee revenues which are based on historical data.**

**Finding #5: The Department did not review outstanding encumbrances in the Central LA Recycling and Transfer Station Trust Fund to determine whether any encumbrances could be disencumbered. As a result, the Department did not revert \$424,000 in funds to the General Fund in a timely manner.**

As previously mentioned, the Central LA Recycling and Transfer Station Trust Fund (Fund #47R) was established to account for the deposits and expenditures related to amounts collected from commercial and private haulers and other non-City entities utilizing the Central LA Recycling Transfer Station. The revenue is used to pay for the waste transport services contracts and for landfill disposal fees. Section 5.540(f) of the Administrative Code requires that unspent monies in the fund at fiscal year end be reverted to the General Fund.

At the end of fiscal years 2004-05 through 2006-07, DPW reverted a total of \$1,913,616 to the General Fund. The amounts reverted were based on the available cash balance, net of encumbrances, at the end of each fiscal year. However, we noted that the amounts reverted were understated by \$424,804 because the Bureau of Sanitation did not review outstanding encumbrances at the end of each fiscal year.

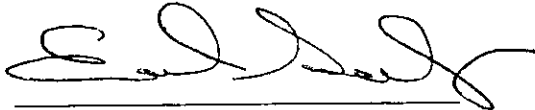
Specifically, in April 2008, the Department cancelled \$424,804 in encumbrances related to prior years. If the Department had reviewed its outstanding encumbrances at the end of each fiscal year, these monies could have been disencumbered earlier. It should be noted that in FY 2007-08 the CAO advised departments to carefully review outstanding encumbrances. Without this directive, the encumbrances that were canceled in April 2008 may have continued to remain open since the Department did not have controls in place to ensure outstanding encumbrances are periodically reviewed. The chart below summarizes the amount the Department reverted to the General Fund at the end of each fiscal year, and the amounts disencumbered in April 2008.

<b>FY</b>	<b>Amount reverted to the General Fund</b>	<b>Unnecessary encumbrances identified in subsequent years</b>	<b>Date of disencumbrances</b>
2004/05	\$ 351,667	\$ 62,388	4/22/08
2005/06	701,583	102,045	4/22/08
2006/07	\$ 860,366	\$ 260,371	4/22/08

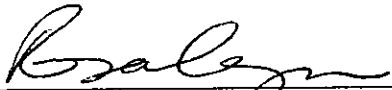
**Recommendation**

9. The Department of Public Works should establish procedures which ensure that the Department conducts a periodic and thorough review of open encumbrances in the Central LA Recycling and Transfer Station Trust Fund to identify those that should be disencumbered.

Respectfully submitted,



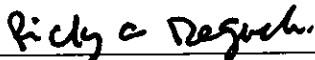
Eren Sanchez, CPA  
Internal Auditor I




Wai Ling Wong, CPA, CIA  
Internal Auditor III



Mike Lee, CPA, CIA  
Chief Auditor



Ricky Deguchi, CPA, CIA, CISA  
Chief Internal Auditor

for: 

Farid Saffar, CPA  
Director of Auditing

July 22, 2008

**Appendix A**

**OFFICE OF THE CONTROLLER  
SPECIAL REVENUE FUND AUDIT  
OF THE PUBLIC WORKS**

**Ranking of Recommendations**

<b>Finding Number</b>	<b>Description of Finding</b>	<b>Ranking Code</b>	<b>Recommendations</b>
			The Department of Public Works should:
1.	We identified \$957,852 sitting idle in inactive trust funds. The Department does not actively monitor the funds to determine why funds have remained inactive for extensive periods. Of the \$957,852, \$435,992 can be transferred to the General Fund. The remaining \$521,860 could also potentially be escheated to the General Fund if DPW is unable to locate or identify the individuals who paid the monies.	U	1. Establish a mechanism and develop periodic status reports to properly track inactive special revenue funds.
		U	2. Transfer \$435,992 (including the \$157,196 already transferred) from ten inactive funds to the General Fund, and close all but Fund #40V.
		N	3. Attempt to locate the individuals who paid the \$521,860 remaining in six inactive drainage district funds. If DPW is unable to locate or identify the individuals who paid the monies, the \$521,860 should be escheated to the General Fund.
2.	Due to poor program oversight, the Department did not charge \$5.4 million in labor costs against the Griffith Observatory Trust Fund. Also, the Department had to return \$193,000 in interest to State because it did not submit the close-out report for the Griffith Observatory project in a timely manner.	U	4. Report actual costs for its projects and seek additional funding when actual costs exceed the budget.
		N	5. Determine whether there are any other situations where the General Fund is not being reimbursed by special revenue funds for eligible labor costs paid by the General Fund.

		U	6. Transfer \$3.3 million from the Griffith Observatory Trust Fund to the General Fund and close the fund.
3.	The Bureau of Sanitation did not comply with reporting requirements specified in Ordinances.	D	7. Submit required financial status reports to Council and the Mayor for the Central LA Recycling and Transfer Station Trust Fund (Fund #47R) and the Integrated Solid Waste Management Trust Fund (Fund #556).
4.	The Department has significantly underestimated its revenues each year for the Street Damage Restoration Fee Fund.	N	8. Develop more realistic budgets of Street Damage Restoration Fee revenues which are based on historical data.
5.	The Department did not review outstanding encumbrances in the Central LA Recycling and Transfer Station Trust Fund to determine whether any encumbrances could be disencumbered. As a result, the Department did not revert \$424,000 in funds to the General Fund in a timely manner.	N	9. Establish procedures which ensure that the Department conducts a periodic and thorough review of open encumbrances in the Central LA Recycling and Transfer Station Trust Fund to identify those that should be disencumbered.

### **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

## List of 29 Selected Funds

Appendix B

	Fund No.	Date Opened	Fund Name	Fund Balance
1	46D	09/01/02	Citywide Recycling Trust Fund	\$50,785,742
2	438	02/24/83	Construction Services Trust Fund (previously One-Stop Permit Center Trust Fund)	9,492,586
3	47R	06/14/04	Central Los Angeles Recycling and Transfer Station Fund	1,764,361
4	46R	06/17/03	Griffith Observatory Trust Fund	7,288,949
5	556	02/22/93	Integrated Solid Waste Management Trust Fund	5,216,988
6	41A	03/27/98	Street Damage Restoration Fee Fund	4,585,764
7	434	02/17/78	Venice Area Surplus Real Property Fund	4,274,692
8	50D	09/16/07	Multi-Family Bulky Item Revenue Fund	3,845,881
9	47M	03/29/04	Century City Neighborhood Traffic Protection Trust Fund	1,436,522
10	43Q	02/27/00	Hansen Dam Environmental Awareness Fund	1,227,727
11	895	06/01/96	Citywide Council District Sidewalk Repair and Street Maintenance Trust Fund	278,796
12	618	05/25/64	Shoshone Avenue and Rinaldi Street Drainage District Fund	255,250
13	625	11/22/68	Vanalden Channel Drainage District Planned Local Drainage Facilities Fund	97,242
14	624	11/22/68	Mason Avenue and Lassen Street Drainage District Planned Local Drainage Facilities Fund	84,958
15	615	08/16/85	Westwood Village Tree Lighting Maintenance District Fund	77,142
16	623	11/17/65	Terra Bella Street and Fenton Avenue Drainage District Fund	61,304
17	662	06/19/96	Alley West of Vermont Avenue (Near 8th Street)	29,992
18	416	before 1969	Assessment Investment Fund	20,095
19	619	11/25/64	Winnetka Avenue and Devonshire Street Drainage District Fund	18,870
20	40V	12/16/97	Alley Northwest of Jefferson Boulevard (Near Randall Street)	18,063
21	652	10/18/95	Improvement Alley South of Melrose Avenue (Near Kilkea Drive)	16,834
22	628	unclear	Street Improvement Trust	13,534
23	247	before 1969	Improvement Alley West of Gaffey South of 1st Street	9,582
24	672	11/17/97	Alley West of Beacon Street and South of 13th Street	8,406
25	629	11/20/64	Sunland Boulevard and Apperson Street Drainage District	4,236
26	632	before 1969	Improvement Alley West of Grand South of Santa Cruz Street	2,427
27	442	09/26/83	Coral Tree Trimming Trust Fund	1,197
28	533	1986	Venice Canals Rehabilitation Fund	1,121
29	630	09/11/87	Improvement for Vanowen Street Groundwater Fund	406
			<b>Total</b>	<b>\$90,918,668</b>