



OFFICE OF
CONTROLLER

LAURA N. CHICK
CONTROLLER

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

July 31, 2006

Honorable Antonio R. Villaraigosa, Mayor
Honorable Rockard J. Delgadillo, City Attorney
Honorable Members of the City Council
City Hall
200 North Main Street
Los Angeles, California 90012

Dear Mayor Villaraigosa, City Attorney Delgadillo, and Members of the City Council:

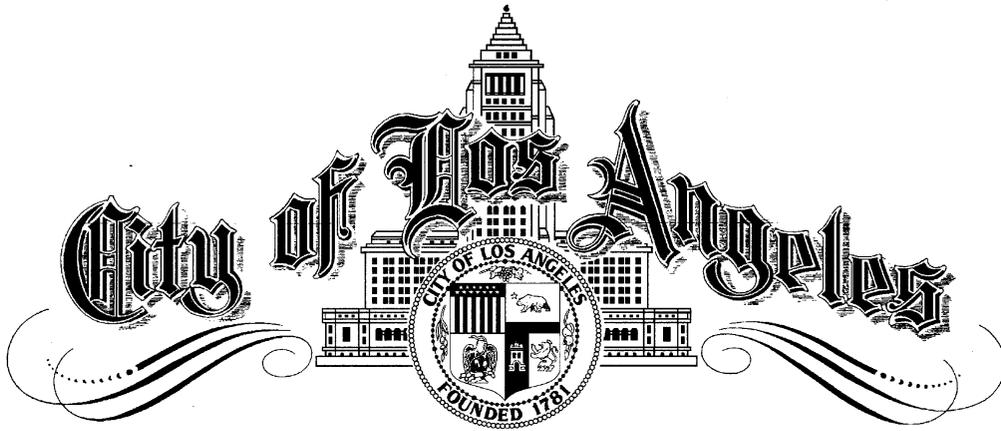
I am releasing the enclosed report entitled "Review of the Fiscal Year 2003-04 Internal Control Certification Program (ICCP) for the Community Redevelopment Agency." A copy of this report was provided to the Community Redevelopment Agency.

If you have any questions or comments, please contact Farid Saffar, Director of Auditing, at (213) 978-7392.

Sincerely,

A handwritten signature in black ink that reads 'Laura N. Chick'. The signature is written in a cursive, flowing style.

LAURA N. CHICK
City Controller



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July 31, 2006

Ms. Cecilia V. Estolano, Chief Executive Officer
Community Redevelopment Agency
354 South Spring Street, Suite 800
Los Angeles, California 90013

Dear Ms. Estolano:

Enclosed is a report entitled, "Review of the Fiscal Year 2003-04 Internal Control Certification Program (ICCP) for the Community Redevelopment Agency." A draft of this report was provided to your office on July 20, 2006.

Please review the final report and advise the Controller's Office by August 31, 2006, on planned actions you will take to implement these recommendations. 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 in a cursive style.

FARID SAFFAR, CPA
Director of Auditing

Enclosure

cc: Robin Kramer, Chief of Staff, Office of the Mayor
Karen Sisson, Deputy Mayor
William T Fujioka, City Administrative Officer
Frank Martinez, City Clerk
Gerry F. Miller, Chief Legislative Analyst
William H. Jackson III, Chairman, CRA Board of Commissioners
Independent City Auditors



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

**Review of the Fiscal Year 2003-04
Internal Control Certification Program
(ICCP) for the Community
Redevelopment Agency**

July 31, 2006

Laura N. Chick
City Controller

REVIEW OF THE FISCAL YEAR 2003-2004 INTERNAL CONTROL CERTIFICATION PROGRAM (ICCP) FOR THE COMMUNITY REDEVELOPMENT AGENCY

The Audit Division has completed a review of the Community Redevelopment Agency's (CRA) Internal Control Certification Program (ICCP). The objective of the audit was to determine whether CRA corrected problems it identified in its fiscal year 2003-04 ICCP by implementing its corrective action plan. We also evaluated CRA's overall administration of the ICCP to determine whether the Department was effective in identifying all internal control weaknesses.

Scope

In performing our review, we interviewed CRA management and staff to gain an understanding of CRA's existing controls, evaluated procedures, and conducted audit tests. Our review was performed in accordance with Generally Accepted Government Auditing Standards and covered the period of June 2005 to May 2006.

Summary

CRA has made progress in correcting problems identified in its fiscal year 2003-04 ICCP. Six have been corrected, two are no longer applicable, and the remaining one will be reviewed as part of a separate follow-up audit. However, CRA still has not implemented two proposed improvement plans related to stamp machine usage and inventories of capital assets. We also found that CRA needs to enhance its controls to ensure that the ICCP process identifies all weaknesses. We identified eight controls that the CRA certified were in place. However, our review found problems in these areas.

Background

Introduced in 1993, the ICCP is designed to help management ensure that their department's internal control structure is adequate and functioning as planned. Every three years, departments are required to self-evaluate their internal controls by completing a questionnaire for each of nine financial control areas: cash, revenues, expenditures, payroll, grants, warehouse inventory, capital assets, computer, and investments. Departments then prepare a corrective action plan to address each self-identified weakness. CRA submitted its latest corrective action plan in January 2005.

This report consists of two sections: Section I discusses the two self-reported weaknesses that still need to be corrected. Section II contains the eight controls that CRA certified were in place, but our review found problems in these areas.

Section I – Proposed Implementation Plans Not Fully Implemented

We interviewed management and staff, evaluated procedures, and sampled transactions to determine if CRA had corrected each of the 11 self-identified weaknesses reported in

its fiscal year 2003-04 ICCP. We found that CRA had not implemented its proposed corrective action plan for two of the weaknesses. Exhibit A shows the status of each of the 11 proposed corrective action plans.

- **The stamp-machine operator does not sign/initial the logbook to signify agreement with the number of stamps used, as recorded by users.**

The CRA's mailroom maintains a logbook to track stamp usage. CRA self-reported that the stamp-machine operator does not countersign against the stamp usage entries posted by the employees. Our review disclosed that the stamp-machine operator still does not sign/initial the logbook to signify agreement with the number of stamps used, as recorded by users. We consider the improvement plan to be not implemented.

- **The CRA does not conduct periodic physical inventories of capital assets.**

CRA self-reported that the Department does not conduct biennial physical inventories of capital assets, as required by Section 2.2.4 of the Controller's Departmental User Manual.

According to the Asset Management Director, the CRA plans to hire a consultant to conduct a capital asset inventory. Once completed, management will develop a plan for ensuring the inventory records are maintained accurately. We consider this improvement plan to be not implemented.

Section II – Weaknesses Not Identified Through Self- Assessment

CRA self-evaluated its internal controls by completing a series of questionnaires for the nine functional areas. CRA certified that all applicable controls were in place except for the 11 self-identified weaknesses. We sampled and tested 93 questions/answers to verify that the necessary controls were in place, as CRA certified. In eight (9%) instances, we determined that the necessary controls were not in place.

- 1. Unpaid invoices are not monitored to ensure payments are made in a timely manner.**

Section 1.5.10 of the Controller's Departmental User Manual states that it is the City's policy to pay vendors within 30 days of receipt of an invoice. Interviews with the Accounts Payable and the Purchasing Section personnel disclosed that vendor invoices are not tracked and monitored to ensure timely payments. The invoices are received in the mailroom and coursed through the Accounts Payable and Purchasing Section to the corresponding ordering divisions for invoice approval. However, the Accounts Payable and Purchasing Section does not maintain a log to track these invoices. According to the Purchasing Director, there have been instances in the past of missing invoices found sitting in the ordering divisions' desk drawers unpaid and overdue. CRA needs to monitor and track the payment of vendor invoices to maximize and ensure discounts are taken.

2. Receiving reports are not prepared for all items received.

According to the Chief Accountant, the Accounts Payable and Purchasing Section does not require the individuals who receive goods/materials to sign receiving reports to acknowledge receipt of goods/materials. Instead, the Accounts Payable and Purchasing Section requires the ordering division to acknowledge receipt of the goods/materials by signing the invoice. In many cases, the invoices are signed by the ordering divisions weeks after receipt of the goods/materials.

To help ensure that CRA pays only for goods/materials actually received, management should require the individuals who receive the goods/materials to immediately complete a receiving report and forward it to the Accounts Payable and Purchasing Section to match with the vendor invoices before making payments.

3. Invoice prices are not reviewed to ensure they are in accordance with contracted unit prices.

Our test of nine service related payments disclosed exceptions on three payments. In one case, the vendor was paid an hourly rate higher than the rate indicated on the purchase order. Further investigation disclosed that the purchase order did not reflect the correct rate.

In the other two cases, payments were made to a vendor based on a billing statement, which did not provide the number of billed hours or the hourly rate. Based on discussions with Accounts Payable and Purchasing Section staff, it is their policy not to require a detailed invoice from the vendor before making a payment. The staff indicated that if the head of one of CRA's departments approves the billing statement, they will pay the vendor.

In order to ensure vendors are paid correct prices, Accounts Payable and Purchasing Section staff should not pay vendors without supporting documentation to show that the rates billed by the vendor reflect the contracted rates.

4. Purchases of goods/services are not made in accordance with applicable City rules and requirements.

Sections 1.3 and 1.4 of the Controller's Departmental User Manual require that any disbursement over \$500 be supported by an encumbrance document (e.g., purchase order, blanket purchase order, contract, authority for expenditure etc.). We noted 43 instances in fiscal years 2003-04 and 2004-05 where the CRA made disbursements without an existing encumbrance. Seventeen of the 43 disbursements were over \$500.

Making direct disbursements without an encumbrance document could result in the City paying more than necessary for goods//materials.

5. Outstanding travel advances over 30 days are not monitored and investigated for return of advances.

Section 1.4.11 of the Controller's Departmental User Manual states that travel advances become delinquent if not resolved within 30 calendar days from the completion of the trip. CRA does not monitor travel advances to ensure they are resolved timely. As of September 2005, the Department had 55 un-liquidated travel advances, totaling \$31,622, which were outstanding for over 30 days. This included 14 travel advances that had been outstanding for over two years. CRA needs to monitor outstanding travel advances so that expenditures are validated and any amounts due to the City are recovered from the employees.

6. Petty cash/change funds are not always maintained at their assigned amounts.

7. A statement of responsibility, which specifies the amount of the assigned fund or sub-assignment and the assigned individual's name, is not on file in the administrative office.

CRA maintains \$2,900 in petty cash funds at 11 different divisions. The CRA's Internal Audit Section routinely reviews for compliance with petty cash policies and procedures to ensure that City funds are used properly. The CRA's Internal Audit Section's report on petty cash funds, issued on September 16, 2005, disclosed that seven of the 11 petty cash funds were not fully accounted for. Also, the Accounting Department did not have a current list of petty cash custodians assigned to the funds. According to the CRA's Internal Audit Section, the exceptions remained uncorrected at the time of our fieldwork.

8. CRA does not conduct periodic physical inventories of items.

CRA maintains an inventory of approximately \$50,000 in office supplies and maintenance goods in its locked warehouse. It issues approximately \$15,000 a month from the warehouse. We noted that the CRA does not conduct periodic physical inventories of items. Such inventories are needed to identify whether inventory items can be accounted for. Although it may not be cost effective to perform inventories of all items, CRA should perform periodic inventories of at least high dollar items and items most susceptible to theft or misuse.

Two important documents needed to conduct a proper physical inventory are receiving reports and requisition slips. As indicated in Observation #2, CRA does not require receiving reports to be completed. CRA requires that employees provide a requisition slip to the warehouse worker to obtain inventory items. However, CRA does not require supervisors to approve requisition slips. Obtaining signed approvals on the requisition slips (at least on high dollar items and items most susceptible to theft or missue) will help ensure that issuances of inventory items have been authorized.

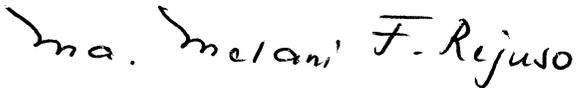
Recommendations

1. CRA management provide closer oversight over the self-evaluation process to ensure that all reportable internal control weaknesses are identified and reported by responsible division managers before the Chief Executive Officer's certification.
2. CRA management correct the eight weaknesses that were not identified through the Department's Internal Control Certification Program process.

Review of Report

We discussed this report with CRA management, who generally agreed with the findings and recommendations.

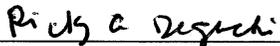
Respectfully submitted,



Maria Melani Rejuso
Internal Auditor



Mike Lee, CIA, CPA
Chief Auditor



Ricky Deguchi, CIA, CPA, CISA
Chief Internal Auditor



Farid Saffar, CPA
Director of Auditing

May 12, 2006

Exhibit A

	WEAKNESSES IDENTIFIED BY CRA	STATUS OF PROPOSED PLAN
1	Collections are not reconciled, within five days of deposit, with the bank's daily deposits cut-off statement.	Implemented
2	Surprise cash counts are not conducted and documented at least annually by someone other than the custodian of the specific monies being counted.	Implemented
3	Bills are not prepared for all billable sales/services provided whether fees are exempted or not (in case of Permit to Enter fees for rent of CRA's space or property).	Not Applicable
4	An aging of receivables is not periodically prepared and reported to senior Management and the Office of Finance.	To be determined by a future follow-up review.
5	A report of uncollectible accounts is not routinely prepared and submitted to the Board of Review or the Board of Commissioners, in the case of CRA, for approval of write-off.	Implemented
6	Uncollectible accounts are written-off without the formal approval by the Board of Review or the CRA's Board of Commissioners. Items \$1,000 or more need to be submitted to the Board of Review for write-off approval.	Implemented
7	The stamp-machine operator does not sign/initial the stamp usage logbook to signify agreement with the recorded stamp usage.	Not Implemented
8	The capital assets tracking system is not updated regularly (at least once every month) to record asset acquisitions or disposals.	Implemented
9	Certification of inventories with pertinent information at year-end is not submitted to the Controller's Office by September of every year.	Not Applicable
10	The Agency does not conduct a biennial physical inventory of capital assets.	Not Implemented
11	Special collections (Art work) are not booked and reported. Moreover, these items did not meet the following criteria: a) held for public exhibition, education or research in furtherance of public service, rather than financial gain, b) protected, kept unencumbered, cared for, and preserved, 3) subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collection.	Implemented

Attachment I

OFFICE OF THE CONTROLLER

REVIEW OF THE FISCAL YEAR 2003-04 INTERNAL CONTROL CERTIFICATION PROGRAM (ICCP) FOR THE COMMUNITY REDEVELOPMENT AGENCY

Ranking of Recommendations

Finding Number	Description of Finding	Ranking Code	Recommendations
<u>Section I</u>	1. The stamp-machine operator does not sign/initial the logbook to signify agreement with the number of stamps used, as recorded by users.	N/A	We did not make a formal recommendation. However, CRA needs to implement its corrective action plan.
	2. The CRA does not conduct periodic physical inventories of capital assets.	N/A	
<u>Section II</u>	1. CRA needs to enhance its controls to ensure that the ICCP process identifies all weaknesses. We identified eight controls that CRA certified were in place. However, our review found problems in these areas.	U	1. CRA management provide closer oversight over the self-evaluation process to ensure that all reportable internal control weaknesses are identified and reported by responsible division managers before the Chief Executive Officer's certification.
		U	2. CRA management correct the eight weaknesses that were not identified through the Department's Internal Control Certification Program process.

Description of Recommendation Ranking Codes

U – Urgent – The recommendation pertains to a serious or materially significant audit finding or control weaknesses. 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