COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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July 19, 2012

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **COUNTYWIDE UTILITY USER TAX EXPENDITURE AUDIT REPORT AS OF JUNE 30, 2011**

Los Angeles County Code Chapter 4.62.240 (Code) authorizes the County to collect a Utility User Tax (UUT) on communication services from residents in unincorporated areas of the County. The Code requires the County to have an annual audit to verify that the taxes have been properly collected and spent. We contracted with an independent Certified Public Accounting firm, Thompson, Cobb, Bazilio & Associates, P.C. (TCBA), to audit how the UUT funds were spent. Attached is TCBA's audit of the County's Schedule of UUT Countywide Expenditures (Schedule) for the Fiscal Year 2010-11.

TCBA issued an unqualified opinion on the Schedule, indicating that the Schedule presents the UUT expenditures fairly, in conformity with accounting principles generally accepted in the United States of America. As part of the audit, TCBA reviewed the County's internal controls over financial reporting, and identified no material weaknesses. TCBA did not examine the collection of the UUT, which will be audited separately.

TCBA also examined the County's compliance with certain laws and regulations pertaining to UUT and the County's adopted budget. TCBA identified one immaterial instance of an undocumented travel and training expense claim paid with UUT funds. The County has made the adjustment to disallow the expense, and has taken action to ensure that future expenditures are properly documented. TCBA also reviewed a

noncompliance issue they had identified in their prior audit where the County inappropriately applied expenditures in the wrong fiscal year. This issue has been resolved.

Please call me if you have any questions, or your staff may contact Robert Campbell at (213) 253-0101.

WLW:JLS:RGC:MWM

Attachment

c: William T Fujioka, Chief Executive Officer
Sachi A. Hamai, Executive Officer
Public Information Office
Audit Committee

Attachment

County of Los Angeles

Schedule of Utility User Tax Countrywide Expenditures With Independent Auditor's Report

June 30, 2011

TCBA

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COUNTY OF LOS ANGELES
Schedule of Utility User Tax Countywide Expenditures

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INDEPENDENT AUDITOR'S REPORT

Wendy L. Watanabe
Auditor-Controller
County of Los Angeles
Los Angeles, California

We have audited the accompanying Schedule of Utility User Tax (UUT) Countywide Expenditures (Schedule) of the County of Los Angeles (County) as of and for the year ended June 30, 2011. The Schedule is the responsibility of the County's management. Our responsibility is to express an opinion on the schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed more fully in note 3 to the Schedule, the accompanying Schedule is intended to present only the UUT Countywide Expenditures. They do not purport to, and do not, present fairly the financial position of the County, as of June 30, 2011, and the changes in its financial position for the year ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the Schedule referred to above presents fairly, in all material respects, the Utility User Tax expenditures of the County as of June 30, 2011, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report, dated April 4, 2012, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That

report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Torrance, CA
April 4, 2012

Thompson, Cobb, Bazilio & Associates, P.C.

COUNTY OF LOS ANGELES
Schedule of UUT Countywide Expenditures
For the Year Ended June 30, 2011

	Certified UUT Expenditures	Audit Adjustments	Adjusted Certified UUT Expenditures
Auditor Controller			
Services and supplies	$ 53,000	$ -	$ 53,000
Board of Supervisors			
Services and supplies	263,000	-	263,000
Chief Executive Office			
Salaries and employee benefits	32,000	-	32,000
District Attorney			
Salaries and employee benefits	1,408,000	-	1,408,000
Health Services[1]			
Various	19,693,000	-	19,693,000
Parks and Recreation			
Salaries and employee benefits	11,313,000	-	11,313,000
Services and supplies	3,140,000	-	3,140,000
	14,453,000	-	14,453,000
Public Library			
Salaries and employee benefits	5,963,000	-	5,963,000
Services and supplies	2,181,000	-	2,181,000
Capital assets	125,000	-	125,000
Other financing uses	75,000	-	75,000
	8,344,000	-	8,344,000
Public Works			
Services and supplies	282,000	-	282,000
Sheriff			
Salaries and employee benefits	9,244,000	-	9,244,000
Services and supplies	16,000		16,000
	9,260,000	-	9,260,000
Sheriff - County Services			
Salaries and employee benefits	1,251,000	-	1,251,000
Services and supplies	115,000	(339)	114,661
	1,366,000	(339)	1,365,661
Treasurer Tax Collector			
Salaries and employee benefits	134,000	-	134,000
Total UUT Expenses[2]	$ 55,288,000	$ (339)	$ 55,287,661

See Accompanying Notes to the Schedule of Utility User Tax Expenditures

[1] The County allocated approximately $19.7 million in UUT funds to the Department of Health Services (DHS) for fiscal year ending June 30, 2011. This allocation is part of the approximate $641 million of annual subsidies provided to County hospitals to provide medical services throughout the County. Because DHS uses the subsidy to provide medical services throughout the County, the UUT funds allocated to DHS were excluded from this audit.

[2] See Note 4 of accompanying Notes to the Schedule of UUT Expenditures.

COUNTY OF LOS ANGELES
Notes to the Schedule of UUT Countywide Expenditures
June 30, 2011

NOTE 1 – Organization

General

The County is a legal subdivision of the State of California charged with general governmental powers. The County's powers are exercised through an elected Board of Supervisors (Board) which, as the governing body of the County, is responsible for the legislative and executive control of the County.

Utility User Tax

UUT is a general tax which is used to provide essential government services. The Los Angeles County Code (Code), Title 4 Revenue and Finance, Chapter 4.62, governs the UUT. The Code provides that utility companies are to collect UUT from service users and remit these monies to the County Treasurer and Tax Collector. A service user is a person that is required to pay based on the consumption of electricity, gas, telephone, cable television services and other communication services. The tax is imposed at a rate of 4.5% and collected by the utility companies or their billing agent. Tax collected by the utility companies is remitted to the County Treasurer and Tax Collector on a monthly basis.

Through the County budget process, the Board approves appropriation authority allowing selected departments to expend their UUT allocations to enhance unincorporated area services. There are a total of ten departments that utilize UUT funds. The ten departments are as follows: Auditor Controller, Board of Supervisors, Chief Executive Office, District Attorney, Health Services, Parks and Recreation, Public Library, Public Works, Sheriff, and Treasurer and Tax Collector. Additionally, the Chief Executive Office is also in charge of expending UUT funds for specific capital projects as well as geocoding projects.

NOTE 2 – Summary of Significant Accounting Policies

The Schedule has been prepared in conformity with Generally Accepted Accounting Principles in the United States of America ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the recognized standard-setting body for establishing governmental accounting and financial reporting principles for governments. The more significant of the County's accounting policies with regard to the UUT are described below:

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The modified accrual basis of accounting is used for the UUT expenditures. Under the modified accrual basis of accounting, expenditures are generally recorded when a liability is incurred, as under accrual accounting.

Budgetary Accounting

The established legislation and adopted policies and procedures provide that the County's Board approves an annual budget. Annual budgets are adopted on a basis consistent with generally accepted accounting principles in the United States of America for all governmental funds.

The County budget is organized by budget unit and expenditure object. Budget units are established at the discretion of the Board. Each individual fund constitutes a budget unit. Expenditures are controlled on the object level for all budget units within the County. The County prepares a separate budgetary document, the County Budget, which demonstrates legal compliance with budgetary control.

Use of Estimates

The preparation of the Schedule in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3 – Activities Excluded from the Schedule

This report only reflects UUT expenditures within various departments of the County. Other activities of the County are not included in this report.

NOTE 4 – Expenditures

Total adjusted certified UUT expenditures for the year ended June 30, 2011 was $55,287,661. In addition to these UUT expenditures, there were additional expenditures for the enhancement of unincorporated area services that were funded by General Fund Balance. The total value of such services provided by both UUT and General Fund Balance during fiscal year 2011 was $60,279,661.

Utility User Tax	$ 55,287,661
General Fund Balance	4,992,000
Total expenditures for enhancement of unincorporated area services	$ 60,279,661

NOTE 5 – Subsequent Events

In preparing the schedule, the County has evaluated events and transactions for potential recognition or disclosure through April 4, 2012, the date the Schedule of UUT expenditures was issued.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE UTILITY USER TAX EXPENDITURES AND ON INTERNAL CONTROL OVER COMPLIANCE

Wendy L. Watanabe
Auditor-Controller
County of Los Angeles
Los Angeles, California

Compliance

We have audited the compliance of the Utility User Tax (UUT) Expenditures of the County of Los Angeles (County) with the requirements described in the *Measure U* and the *County's Adopted Budget* for the year ended June 30, 2011. Compliance with the requirements of laws and regulations applicable to UUT is the responsibility of the County's management. Our responsibility is to express an opinion on UUT expenditures' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on UUT expenditures occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary under the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to the UUT expenditures for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that are required to be reported and which are described in the accompanying *Schedule of Findings and Questioned Costs* as item #2011-01.

Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations applicable to UUT

expenditures. In planning and performing our audit, we considered the County's internal control over compliance requirements that could have a direct and material effect on UUT expenditures in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the *Measure U* and the *County's Adopted Budget,* but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

County's response to the finding identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs.* We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the management of the County, the Board of Supervisors and the Auditor-Controller, and is not intended to be and should not be used by anyone other than these specified parties.

Torrance, California
April 4, 2012

Thompson, Cobb, Bazilio & Associates, P.C.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Wendy L. Watanabe
Auditor-Controller
County of Los Angeles
Los Angeles, California

We have audited the Schedule of Utility User Tax Countywide Expenditures (Schedule) of the County of Los Angeles (County) for the year ended June 30, 2011, and have issued our report thereon dated April 4, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Schedule will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Schedule is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the Schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying *Schedule of Findings and Questioned Costs* as item #2011-01.

The County's response to the finding identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs*. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended for the use of the management of the County, the County Board of Supervisors and the Auditor-Controller, and is not intended to be and should not be used by anyone other than these specified parties.

Torrance, California
April 4, 2012

Thompson, Cobb, Bazilio & Associates, P.C.

COUNTY OF LOS ANGELES
UUT Expenditures
For the Year Ended June 30, 2011

Schedule of Findings and Questioned Costs

Finding No. 2011-01: Inadequate Supporting Documents

Condition
The Sheriff's Department - County Services Bureau (Department) claimed $10,000 for travel and training expenditures under services and supplies. However, the actual costs related to travel and training expenditures were $9,661. Thus, $339 ($10,000 - $9,661) in travel and training expenditures were not supported.

Criteria
In accordance with the UUT Qualified Expenditures Certification Report, *"the detailed supporting documentation for all amounts claimed should be on file and be made available for inspection and/or audit at any time"*.

Questioned Costs
$339

Cause
The $339 unsupported travel and training expenditures was due to anticipated travel and training that did not materialize towards the end of the fiscal year 2010-2011.

Effect or Potential Effect
The UUT funds would be misused if the above unsupported expenditures is allowed for funding from UUT funds.

Recommendation
We recommend disallowing the Department's claim of $339 for services and supplies expenditures for fiscal year 2010-2011.

Department's Response
Corrective processes in reporting the UUT expenditures are now in place to ensure actual expenditure costs are submitted and can withstand future UUT audits.

COUNTY OF LOS ANGELES
UUT Expenditures
For the Year Ended June 30, 2011

Status of Prior Year Findings and Questioned Costs

Finding No. 2010-01: The Sheriff's Department (Department) claimed $13,000 in fixed asset expenditures that were found to be ineligible costs.

Condition
The Department claimed fixed asset expenditures for fiscal year 2008-2009 in the amount of $13,000 that was determined to be an ineligible cost for UUT funding because such expenditure was actually incurred on December 28, 2007, which was before the approval and implementation of Measure U.

Criteria
Claimed expenditures should be incurred after the approval of Measure U (fiscal year 2008-2009).

Cause
The above condition was basically caused by not closely reviewing expenditures before submitting for UUT funding.

Effect
The UUT funds would be misused if the above expenditure will be allowed for funding from UUT funds during fiscal year 2008-2009. However, the use of the funds in itself is a valid government expenditure.

Recommendation
We recommend disallowing the Department's claim of $13,000 for fixed assets expenditure for fiscal year 2008-2009.

Management Response
The County agrees to the recommended $13,000 adjustment. The Department inadvertently applied $13,000 in expenditures to the wrong fiscal year (2008-09) for the East Los Angeles Project. The Chief Executive Office (CEO) has agreed to the $13,000 adjustment, and will work with the Department to identify other unclaimed 2008-2009 eligible costs to offset the disallowed amount. The CEO will reinforce with the County departments the importance of properly applying UUT expenditures to the correct period(s) in the future certification.

Current Year Status
A draft letter attached with invoices to cover the $13,000 finding was provided to the CEO. The CEO is currently in the process of analyzing the information and will continue to work with the Department. Thus, this audit finding is partially resolved.

COUNTY OF LOS ANGELES
UUT Expenditures
For the Year Ended June 30, 2011

Status of Prior Year Findings and Questioned Costs

Current Year Status (Continued)

The CEO issued a memo on October 5, 2011 to all departments with UUT funding to stress the importance of having internal controls in place to ensure compliance when expending such funds.