

# A U D I T

## City of Los Angeles

### Results of Limited Scope Fiscal Audit at the Department of Neighborhood Empowerment

December 22, 2016



**RON | GALPERIN**  
Los Angeles City Controller

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**CITY OF LOS ANGELES**  
INTER-DEPARTMENTAL CORRESPONDENCE

**DATE:** December 22, 2016

**TO:** Grayce Liu, General Manager  
Department of Neighborhood Empowerment

Holly L. Wolcott, City Clerk  
Office of the City Clerk

**FROM:**   
Alfred Rodas, CPA, CIA, CIG, CIGI  
Director of Auditing

**SUBJECT: RESULTS OF LIMITED SCOPE FISCAL AUDIT AT  
DEPARTMENT OF NEIGHBORHOOD EMPOWERMENT**

The Controller's Office completed a Limited Scope Audit of Fiscal Controls at the Department of Neighborhood Empowerment (DONE). We conducted a review of bank accounts not controlled by the City's Treasurer, to evaluate DONE's internal controls and oversight of the 114 bank accounts assigned to Neighborhood Councils (NCs). We also conducted a surprise cash count of DONE's petty cash fund to ensure the authorized fund is accounted for properly and adequate controls are in place. Lastly, we conducted a limited payroll review, which entailed an analysis of hours worked, overtime and mileage reimbursement for pay period #21, to ensure payments to employees were properly supported.

Our audit was performed in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Overall Results

While DONE has established oversight procedures and processes over bank accounts used by NCs, we found that DONE did not always ensure NCs submitted monthly expenditure reports and adequate supporting documentation for checking account disbursements. As a result, reviews to

determine the appropriateness of NCs' expenditures were less thorough than intended. Subsequent to our fieldwork, the oversight of bank accounts used by NCs was transferred to the Office of the City Clerk. The recommendations related to bank accounts should be considered by the City Clerk in its new oversight role.

Regarding cash controls, DONE receives de minimis payments for copy fees of California Public Records Act (CPRA) requests. Although DONE has adequate internal controls in place to ensure all money collected is deposited into the City's bank account, we found weaker controls and security over the petty cash fund. DONE management should strengthen controls to ensure the petty cash fund is accounted for and adequately secured to prevent losses due to theft. Our review of payroll controls found that generally the hours worked, overtime and mileage reimbursements paid were properly documented and supported. However, mileage claims were not always submitted timely and change in headquarters was not updated for an employee.

#### Department Response

A draft report was provided to DONE on December 5, 2016, and the Action Plan submitted is included as an Appendix to this report. Based on the Department's Action Plan, we now consider Recommendations 5, 6, 8, 9, 10, 11, 12, 13, 14 and 15 as Implemented and Recommendation 7 as In Progress. A copy of the findings and recommendations related to NCs' bank accounts was also provided to the Office of the City Clerk; based on the City Clerk's Action Plan (also included as an Appendix to this report), we now consider Recommendations 1, 2, and 3 as Implemented and Recommendation 4 as In Progress.

### **OBSERVATIONS**

#### **BANK ACCOUNTS**

The Los Angeles Citywide System of Neighborhood Councils was created in 1999, and established the Neighborhood Council Program as a forum to communicate local issues to the Mayor and City Council. Each fiscal year, the City allocates monies to the Neighborhood Empowerment Fund. Until July 1, 2016, DONE administered the funds and provided oversight of the activities of each Neighborhood Council. The procedures described in our report reflect DONE's processes at the time of the audit.

Grayce Liu, General Manager  
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Each of the 96 NCs administers their own budget and was allocated \$37,000 in FY 2015-16 for office supplies, equipment, community outreach, community projects, and NC election-related expenses. NC allocations are funded from the City's General Fund. Each NC is assigned its own checking account and DONE deposits funding replenishments on a quarterly or as-requested basis. As of March 31, 2016, DONE reported 114 bank accounts not controlled by the City Treasurer, with a combined balance of \$1,178,116. There were 18 inactive accounts that were in the process of being closed.<sup>1</sup>

Each NC Board appoints a Treasurer and authorized Signer who must be trained by DONE staff on the policies and procedures required to appropriately administer the NC checking account. NC Boards must approve all expenditures and submit Board Vote forms as support. Expenditures exceeding \$2,500 must be pre-approved by DONE and documented on a Funding Request Form. Subsequent to Board approval and the Treasurer's authorization, the Signer may issue payments to vendors via the online banking system, which generates and mails checks to vendors within 3-5 business days, or pay with a debit card linked to the NC checking account.

The NC Treasurer submits Monthly Expenditure Reports (MERs) that summarize disbursements made by the NC and include supporting documentation such as purchase request authorizations, receipts, event flyers, etc.

The Department reviews and approves the MERs to ensure appropriateness of expenditures, and accountability. If a NC repeatedly does not adhere to the monthly reporting requirements, DONE can freeze the bank account.

DONE uses QuickBase, a customizable database application to store and track NC funds and store electronic copies of reports and other documents, such as approvals, requests, and emails.

We assessed DONE's oversight procedures for a sample of 10 MERs (related to 10 of the 96 active bank accounts) submitted by 10 different NCs.

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<sup>1</sup>Since March 2015, DONE has been updating bank account authorizations to ensure NC Boards have restricted access to bank accounts (i.e., eliminating the ability of NC Board members to remove DONE officials). New accounts were opened with restricted access to NC Boards and broad authorization for DONE officials.



## **Observation #1**

### **DONE's review procedures do not always ensure Monthly Expenditure Reports are complete and NC expenditures are appropriate and adequately supported.**

NCs are required to submit MERs within ten business days after the NC's regular monthly board meeting and MERs must be complete and document all bank account transactions with supporting documentation. DONE's policies and procedures require follow-up notices to NCs if documents are missing or incomplete. However, we noted these procedures are not always followed. Specifically,

- Eight of the ten NCs had outstanding MERs of one month or more. The Department did not contact the NCs after the 1<sup>st</sup> or 2<sup>nd</sup> MERs were outstanding, but instead waited until 3 or more months were overdue. Four of nine NCs<sup>2</sup> submitted MERs late over a four-month period.
- Five of the ten NCs did not submit all of the required supporting documents such as receipts or approved elections budget to substantiate expenditures, or lacked itemized receipts. DONE had not sent any letters to the NCs regarding the deficiencies we noted.
- The Department does not track non-compliance with MER reporting on their QuickBase system. DONE's limited staffing is unable to continually update QuickBase with specific issues/missing documents identified during MER reviews. Thus, the Department cannot readily determine when corrective actions, e.g., an account freeze, should be taken.
- DONE management does not adequately track NCs that have an account freeze funds to ensure sufficient follow up is performed address non-compliance issues. DONE issued a Freeze Notice to one NC on April 11, 2016 and requested the NC to submit outstanding MERs for Dec, Jan, and Feb. However, as of the end of May, the NC account was not flagged as "frozen" on the Department's QuickBase database.

In 2010, the Controller's Office audited DONE's oversight of NC expenditures and noted that only one employee was assigned to review 89 NC *quarterly* expenditure reports. At the time, DONE was substantially behind in its reviews. Given the staffing limitation, the audit recommended DONE develop

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<sup>2</sup> Board meeting dates were not indicated for one of the NCs in our review.

a plan to review expenses on a sample basis, based on factors such as dollar amount and the NC's history in submitting quality documentation. In 2011, DONE developed a risk-based sampling methodology to mitigate the staffing limitation and provide adequate coverage of expenditure reviews.

This risk-based sampling methodology is no longer followed. Currently, DONE requires monthly expenditure reports and has assigned two staff members to complete the reviews of 96 NC's MERs. The Department has frequently requested Council's approval for additional staff positions, but the positions were not approved. To provide closer oversight of NCs that do not submit MERs timely or lack adequate supporting documents, DONE should again consider adopting a risk-based approach to reviewing MERs. A revised approach could require more in-depth reviews of NCs who have difficulty complying with reporting requirements and possibly a less frequent or sample-based review of NCs who consistently meet reporting deadlines and submit quality documentation.

The quality of DONE's oversight, and subsequent enforcement efforts, depends on adequate reviews of monthly expenditure reports and documenting issues. The Department should take steps to correct issues before they become significant by enforcing its reporting requirements on a timely basis. Due to limited staffing, the Department should consider alternatives to reviewing all 96 NCs MERs every month.

As noted, the City Clerk has assumed oversight responsibility for the NCs' bank accounts, effective July 1, 2016.

### **Recommendations**

#### **City Clerk management should:**

- 1. Notify NCs when MERS are past due and supporting documents are inadequate or missing.**
- 2. Consider utilizing QuickBase or similar automated system to note NCs that have not submitted MERs and update with issues identified during MER reviews.**
- 3. Track NCs with frozen funds.**

- 4. Develop a risk-based plan to perform in-depth reviews of NCs that do not submit MERs timely or lack adequate supporting documentation. Consider performing less frequent or sample-based reviews of NCs who consistently meet reporting deadlines and submit quality documentation.**

## **PETTY CASH**

The Department has a \$1,000 petty cash account that is used for emergency purchases or for items that are not routinely purchased through the General Services Department (GSD). We conducted a surprise cash count at the DONE headquarters and found that the Department should strengthen its internal controls and security over petty cash.

### **Observation #2**

**DONE should strengthen its procedures and documentation to ensure petty cash is used appropriately and is adequately secured.**

We noted several issues related to DONE's practices for using and securing its petty cash fund.

- DONE does not periodically count the petty cash fund. As a result, the custodian was unaware there was a \$3 shortage.

The custodian did not have a log documenting cash counts of the petty cash fund, but indicated the fund was counted when there was change of custodians. On June 28, 2016, Auditors counted \$997 in cash, coins and unpaid vouchers, which left a \$3 shortage from the authorized amount. Being unaware of the shortage, the custodian could not determine when it occurred or the cause.

The custodian subsequently replaced \$3 into the petty cash fund from her personal funds. Although the amount was immaterial, an employee's personal funds should not be commingled with City funds. Overage/shortage reporting and replenishment procedures, as noted in Section 1.7 of the Controller's Manual, must be followed.

- DONE's petty cash fund is not adequately secured.

Although petty cash is stored in a locked cash box, the box was kept in an unlocked cabinet which increases the risk of theft. In addition, there are two keys to the cash box; however, only one key was available to the Department. The Department did not retrieve the second key from the previous custodian who is on an extended leave of absence. Access to petty cash funds should be restricted to the current fund custodian.

- DONE did not complete a Custodian Form when there was a change in custodians.

The petty cash custodian changed; however, a new Custodian Form was not completed at that time. Custodians are required to sign an accountability form acknowledging they are responsible for the public funds. The form should be retained in the Department's administrative records.

- DONE lacks adequate procedures to process petty cash vouchers and replenish petty cash timely.

Auditors noted one petty cash voucher was not numbered and was for expenses incurred nine months prior to the requested reimbursement. Petty cash vouchers should be submitted timely to ensure that expenditures are appropriate. Also, supporting documentation for two paid petty cash vouchers observed was not marked paid, to prevent subsequent reuse. According to DONE staff, voucher numbers are tracked on a log and subsequently written on the petty cash voucher form. Petty cash vouchers should be numbered for proper control and accountability, and receipts/vouchers noted as "paid".

It appears that these weaknesses occurred because the designated custodian lacked training on his/her responsibilities. The current custodian was also unsure of the Department's procedures for requesting and logging petty cash replenishments. DONE management should ensure its petty cash fund custodian adheres to its procedures for petty cash use, as well as the Controller's Office Petty Cash policies and procedures.



### **Recommendations**

#### **DONE management should:**

- 5. Ensure that surprise cash counts are conducted and documented at least quarterly by someone other than the petty cash custodian.**
- 6. Report any petty cash fund shortages or overages to the Controller's Office.**
- 7. Adequately secure petty cash in a locked cabinet and restrict access by ensuring only the custodian has the key.**
- 8. Ensure that the designated petty cash fund custodian signs an Accountability Receipt, formally acknowledging responsibility of the funds. The Accountability Receipt should be completed at the time of a change in custodian.**
- 9. Ensure the petty cash fund custodian follows appropriate internal control procedures for processing petty cash vouchers such as sequential numbering for accountability, marking supporting documents "paid" to prevent reuse and requesting staff to submit petty cash vouchers timely to ensure expenditures are appropriate.**

### **PAYROLL & MILEAGE REVIEW**

DONE paid 39 employees (including three "as-needed" employees) for pay period #21, our review period. We selected all 39 employees for our payroll observation and limited scope analysis and tested controls over overtime payments, bonuses and mileage.

DONE compensated overtime hours worked by employees as time-off. No DONE employee received bonuses, except for a car allowance paid to the General Manager. Employees are compensated for mileage, as allowed per MOU-1. We noted issues related overtime authorization and mileage.

#### **Observation#3**

**DONE did not have an overtime authorization form ("blue slip") for one employee.**

During our review period, 16 employees reported "OT – Overtime Banked (1.5)". Except for one as-needed employee, the overtime was documented on a "blue slip". Generally, overtime should be worked when it is necessary to meet public service demands and be pre-approved. Pre-approved overtime requests are a control procedure that demonstrates management has considered the need for employees to work additional hours.

According to DONE management, all overtime is pre-approved and may be a verbal approval due to the overtime being incurred as a result of a NC meeting taking longer than anticipated. We also noted an overtime approval form had an incorrect employee ID#; staff indicated the employee had reused another employee's overtime form and had forgotten to update the Employee ID#.

### **Recommendations**

#### **DONE management should:**

- 10. Require supervisors to submit approved overtime slips prior to employees working the additional time. Overtime that is verbally approved should be documented as to the circumstances that prevented a preapproved overtime slip.**
- 11. Require supervisors to verify employee information is correct on overtime authorization forms prior to approval.**

### **MILEAGE CLAIMS**

City employees who are authorized to use their personal vehicles to perform their duties receive mileage reimbursements at 54 cents per eligible mile. In addition to an initial authorization form, employees complete bi-weekly mileage statements to document trip dates, locations visited, work order numbers, odometer readings, and arrival times. After supervisory approval, the claims are submitted to the Department's Payroll Section for entry into PaySR.

Each employee approved for mileage reimbursement is required to have a designated headquarters, which is defined by the Los Angeles Administrative Code (LAAC) as "those places and assignments to which an employee is

required to report for instructions such as the City Hall or any of its branches, various departmental or divisional yards, plants or stations or similar places of assignment." Employees' designated headquarters is noted in PaySR, and used to calculate mileage reimbursement.

Employees are not reimbursed for any miles driven between home and headquarters, as this is considered their necessary 'commute'. However, once an employee arrives at their first stop (either a field location or headquarters), the employee receives reimbursement for all miles driven until they arrive at their last stop. In addition, employees are reimbursed for any miles between home and their first stop *and* for any miles between their last stop and home, which exceed the employee's home-to-headquarters distance. Employees may also be reimbursed for bringing a personal vehicle to work each day per Los Angeles Administrative Code (LAAC) or Memorandum of Understanding (MOU) provisions. For example, DONE employees covered by MOU 1 receive a guaranteed reimbursement equivalent of 10 miles per day, if they are required by management to bring a personal vehicle to work each day, even if they incur no mileage.

We reviewed five mileage claims paid during pay period #21 to verify employees were paid correctly, based on their submitted mileage statements and PaySR information.

#### **Observation #4**

#### **DONE did not consistently follow City guidelines for approving employees' mileage claims.**

We noted several issues related to DONE's practices for approving mileage claims for reimbursement.

- DONE did not formally document/certify employees are required to bring their personal vehicle to work. As a result, the City Clerk who inputs mileage claims to PaySR did not have access to a written authorization.

The City Clerk only required an insurance requirement statement and proof of insurance from employees. However, these forms do not certify that the employee is required to bring their personal vehicle to work each day or on an as needed basis or indicate the home to headquarters miles. Some DONE employees are guaranteed a minimum payment of

10 miles each day; therefore, management's requirement must be documented and retained to justify these payments.

- DONE did not ensure employees submitted complete mileage claims forms. One claim did not list the field location addresses for any of the days the employee claimed mileage. Without noting field location addresses, there is a risk that mileage is overstated resulting in an overpayment. In order for the City to verify the nature, distance and location of field visits, an address must be recorded on the mileage claim.
- DONE did not ensure employees to submit mileage claims timely.

Two employees submitted multiple claims, one to five pay periods after the trips were made. According to the Department's Employee Handbook, employees are required to submit mileage statements after each pay period; however, this requirement was not enforced. Delayed submission makes it difficult to determine whether claims are for valid City business.

- DONE did not formally update the home to headquarters miles of an employee that was temporarily reassigned to a new headquarters.

The pre-printed home to headquarters miles was crossed out and the correct miles to the temporary headquarters was written in. Home to headquarters miles are automatically deducted on PaySR to calculate mileage reimbursements. Since employees are reimbursed for miles driven in excess of their "commute", it is important to ensure that changes to an employee's headquarters exceeding 30 days are recorded timely to prevent over- or under-payments.

Based on the issues noted, DONE should strengthen its controls over mileage to ensure payments are appropriate and correct.

### **Recommendations:**

#### **DONE management should:**

- 12. Document its authorization for each employee required to use their private vehicle. The authorization should indicate whether a personal vehicle is required each day or on an as**



**needed basis, and be signed by the employee, supervisor and management.**

**13. Direct supervisors to only approve mileage claims that are complete and accurate. Incomplete forms should be returned to staff.**


**14. Require employees to submit mileage claims biweekly.**

**15. Update an employee's headquarters for assignment changes exceeding 30 days.**

**CITY OF LOS ANGELES**  
**INTER-DEPARTMENTAL CORRESPONDENCE**

**DATE:** December 20, 2016

**TO:** Alfred Rodas, CPA, CIA, CIG, CIGI  
Director of Auditing

**FROM:** Grayce Liu, General Manager  
Department of Neighborhood Empowerment 

**SUBJECT: DEPARTMENT OF NEIGHBORHOOD EMPOWERMENT  
RESPONSE TO LIMITED SCOPE FISCAL AUDIT**

The Department of Neighborhood Empowerment has been working with and responding to requests for information and documentation from the Controller's Office on the Limited Scope Audit of Fiscal Controls. We are in receipt of the resulting report and have reviewed the findings carefully. Below is our response to the several findings and recommendations as made by the Controller's Office. Please note that the Department will not be responding to Observation #1 since the Office of the City Clerk has taken over the administration and monitoring of the Neighborhood Council Funding Program as of July 2016.

**Observation #2**  
**Recommendations**

**DONE management should:**

- 5. Ensure that surprise cash counts are conducted and documented at least quarterly by someone other than the petty cash custodian.**

Department Response: Since July 2016 and as of December 2016, the Department only has one full-time accounting position, a Senior Accountant I, which currently manages the petty cash account. After consulting with the Controller's Office, it was confirmed that surprise cash counts can, and will be conducted by a manager in the absence of another full-time accountant.

- 6. Report any petty cash fund shortages or overages to the Controller's Office.**

Department Response: The Department is in agreement with this

recommendation and will do so in all future instances.

**7. Adequately secure petty cash in a locked cabinet and restrict access by ensuring only the custodian has the key.**

Department Response: The Department is in agreement with this recommendation and has contacted General Services to request a change in locks and keys.

**8. Ensure that the designated petty cash fund custodian signs an Accountability Receipt, formally acknowledging responsibility of the funds. The Accountability Receipt should be completed at the time of a change in custodian.**

Department Response: The Department is in agreement with this recommendation and will do so immediately for the current custodian.

**9. Ensure the petty cash fund custodian follows appropriate internal control procedures for processing petty cash vouchers such as sequential numbering for accountability, marking supporting documents "paid" to prevent reuse and requesting staff to submit petty cash vouchers timely to ensure expenditures are appropriate.**

Department Response: The Department is in agreement with this recommendation and will do so in all future instances.

**Observation #3  
Recommendations**

**DONE management should:**

**10. Require supervisors to submit approved overtime slips prior to employees working the additional time. Overtime that is verbally approved should be documented as to the circumstances that prevented a preapproved overtime slip.**

Department Response: The Department is in agreement with this recommendation and will do so in all future instances.

**11. Require supervisors to verify employee information is correct on overtime authorization forms prior to approval.**

Department Response: The Department is in agreement with this recommendation and will do so in all future instances.

**Observation #4**

**Recommendations:**

**DONE management should:**

- 12. Document its authorization for each employee required to use their private vehicle. The authorization should indicate whether a personal vehicle is required each day or on an as needed basis, and be signed by the employee, supervisor and management.**

Department Response: The Department discussed this requirement with the Controller's representative at the initial review stage, and a search for a City-wide form to authorize employees for mileage could not be found. After further discussion, it was determined that a memo from the Department would suffice to satisfy this requirement. As such, the Department will adhere to this recommendation in the future, and modify it accordingly as new staff is brought on board, or if existing staff leave the Department.

- 13. Direct supervisors to only approve mileage claims that are complete and accurate. Incomplete forms should be returned to staff.**

Department Response: The Department is in agreement with this recommendation and will do so in all future instances.

- 14. Require employees to submit mileage claims biweekly.**

Department Response: The Department is in agreement with this recommendation and will do so in all future instances.

- 15. Update an employee's headquarters for assignment changes exceeding 30 days.**

Department Response: The Department is in agreement with this recommendation and will do so in all future instances.

Cc: Holly L. Wolcott  
City Clerk



HOLLY L. WOLCOTT  
CITY CLERK

SHANNON D. HOPPES  
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November 16, 2016

Mr. Alfred Rodas  
Office of the Controller  
City of Los Angeles  
200 North Main Street, 4th Floor  
Los Angeles, CA 90012

**SUBJECT: RESPONSE TO "RESULTS OF LIMITED SCOPE FISCAL AUDIT AT  
DEPARTMENT OF NEIGHBORHOOD EMPOWERMENT"**

Dear Mr. Rodas:

**Summary:**

The Office of the City Controller conducted a limited scope audit of fiscal controls conducted at the Department of Neighborhood Empowerment (DONE). The audit involved a review of Neighborhood Council (NC) bank accounts, petty cash and payroll. The fieldwork observed a weakness in the oversight of NC expenditure reporting. Subsequent to the audit, the NC Funding Program and its oversight responsibilities have been transferred to the Office of the City Clerk.

The Office of the City Clerk has reviewed the results and recommendations of the draft audit and is in agreement with its content. As requested, the following actions are in place, or will soon be implemented, to address recommendations relative to the management and oversight of expenditure reporting.

**Response to Recommendations for City Clerk management:**

1. Notify NCs when MERs are past due or inadequate or missing.  
**Response: The Office of the City Clerk currently notifies Neighborhood Councils via telephone and email when Monthly Expenditure Reports (MERs) are past due, inadequate, or missing.**

Mr. Alfred Rodas  
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2. Consider utilizing QuickBase or similar automated system to note NCs that have not submitted MERs and update with issues identified during MER reviews.

**Response: The Office of the City Clerk is currently utilizing QuickBase to monitor Neighborhood Council's MER submissions and issues identified during MER reviews.**

3. Track NCs with frozen funds.

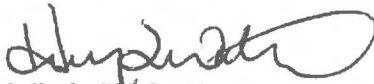
**Response: The Office of the City Clerk is currently utilizing QuickBase to track Neighborhood Councils with frozen funds.**

4. Develop a risk-based plan to perform in depth reviews of NCs that do not submit MERs timely or lack adequate supporting documentation. Consider performing less frequent or sample based reviews of NCs who consistently meet reporting deadlines and submit quality documentation.

**Response: The Office of the City Clerk is in the process of developing a plan to assess and conduct reviews based on high risk analysis.**

Note: As stated on the limited scoped fiscal audit report, the City Clerk has assumed oversight responsibility for the Neighborhood Council Funding Program effective July 1, 2016. During the transfer of the NC Funding Program, this Office was made aware of a backlog of MERs that have not been reviewed. This Office will use the same risk based approach to methodically address the backlog.

Sincerely,



Holly L. Wolcott  
City Clerk

cc: Grayce Liu, General Manager  
Department of Neighborhood Empowerment

HW/SH/PS/LC:amm  
EXE-080-16