SUMMARY

Background

The City of Los Angeles, Office of the City Controller, engaged Crowe Horwath LLP (Controller's Auditor or Auditor) to conduct an audit (Controller's Audit) of the Joint Safety Institute (JSI) and Joint Training Institute (JTI) or collectively referred to as Trusts. The two Trusts were formed by the City Council in 2000 (JSI) and 2002 (JTI), by the Agreement and Declaration of Trust (Trust Agreements) between the International Brotherhood of Electrical Workers (IBEW) and the City of Los Angeles Department of Water and Power (LADWP) establishing the Joint Safety Institute (JSI) and the Joint Training Institute (JTI). The Trusts are funded by contributions made by the Los Angeles Department of Water and Power (LADWP). Expenses are paid by the Trusts under the oversight of a Board of Trustees. Accounting records of the Trusts are maintained separately for both JSI and JTI at the Trusts' location at 11801 Sheldon Street in Sun Valley.

The scope of Controller's Audit included the period of July 1, 2009 through June 30, 2014 (Audit Period). The primary purpose of the Controller's Audit was to determine the validity and reasonableness of expenses paid by the JSI and JTI using the public funds provided by the LADWP. The objectives of the Controller's Audit are described in detail in Section I.

Overall Assessment

There is a lax control environment at the Trusts. That environment sets the tone for the whole organization, influencing the activities of its employees. Responsibility for tone at the top of the organization lies with the Board of Trustees. Control activities are the policies and procedures that help ensure Board of Trustee directives are carried out throughout the organization. The Trusts' Board of Trustees have approved several general governance directives, including the following policies: Conflict of Interest, Investment, Transportation, Travel, Document Retention and Whistleblower. However, the Trusts' lack fiscal and internal control policies and procedures to ensure that control activities are documented through approvals, authorizations, verifications, reconciliations, supervisory reviews and segregated duties. The lack of fiscal policies and procedures leaves the Trusts without a sound framework of internal controls over financial transactions resulting in an increased risk of fraud, waste and/or abuse. While disbursements are generally approved by the Board of Trustees through the dual check signature process (one Management and one Labor Trustee must sign all checks), and most expenses were supported by underlying invoice documentation, there are a number of questionable expenses noted during the Controller's Audit. The lack of a more robust internal control environment also has led to non-compliance with the Trust Agreements, Trusts' Policies, Internal Revenue Service (IRS) requirements, and prudent business practices.

Significant Findings

Section III of this report provides the detailed Conclusions, Findings and Recommendations as a result of the audit procedures performed. A brief summary of the more significant findings is as follows:

- The Trusts have accumulated approximately $11.3 million in cash and investment balances as of June 30, 2014. The Trusts' average annual income for fiscal years 2010 through 2014 was approximately $3.9 million, with average annual expenses of $3.5 million, resulting in an increase in cash and investment balances of $2 million since July 1, 2009. The majority of the Trusts' income (98.5% for JSI and 97.8% for JTI, on average over the Audit Period) is from LADWP rate payer money and is being held by the Trusts without a documented plan as to how those funds will be used by the Trusts for authorized purposes.
- The Trusts did not comply with an IRS requirement and failed to report over $86,000 of income to the IRS. Credit cards were provided to the Administrators to purchase gasoline for the business use of their personal automobiles. The Trusts also provided an automobile allowance to Administrators of $500 per month. By providing an automobile allowance to Administrators, the Trusts have followed the non-accountable employee expense plan rules of the IRS. Therefore, the gasoline charged to credit cards and the monthly automobile allowance should have been reported as income on the employees' W-2 Forms; the Trusts only reported the monthly allowance to the IRS.
- The Trusts did not comply with the Trust Agreements regarding compensation of LADWP employees. Article IX, Section 4 of the JSI Trust Agreement states that LADWP employees shall not receive compensation from the Trusts; however, the JSI has compensated approximately 110 LADWP employees, on average $5,100, to conduct training courses. The Trusts paid these LADWP employees, who are training LADWP employees on the Safe Start Program, $200 per course taught. In excess of $560,400 was paid to these LADWP employees by the Trusts through June 30, 2014.
- The Trusts had significant expenses related to conferences, meetings and travel. During July 1, 2009 through June 30, 2014, the Trusts spent approximately $421,550 on conference registration fees, airfare, automobile expenses, lodging and food for Trustees, Administrators and employees to attend those conferences and meetings. The reasons for attendance at the conferences were not documented by the Trusts; therefore, we cannot determine the reasonableness of the conference attendance. In addition, not all conference attendance was documented, as approved, in the Board of Trustee meeting minutes, in accordance with the Trusts' Travel Policy.
- The Trusts did not have appropriate controls over their contracting and purchasing functions. The Trusts lacked procurement policies and procedures that resulted in 19 non-competitively bid contracts, including some with change orders that totaled over $17.1 million during the audit period.
- The Trusts did not have policies and procedures to control credit card usage. During fiscal years 2010 through 2014, there was over $667,000 charged to

credit cards by Trust employees. Credit cards were used to pay for conferences, lodging, meals, travel, office supplies, computer equipment, auto expenses and gasoline. For instance one Administrator had over $30,000 in gas charges during the Audit period. Without proper policies and procedures surrounding contract procurement and other credit card purchases, we cannot assess the reasonableness and appropriateness of expenses. In addition, the Trusts' credit card charges dropped dramatically from 2013 ($200,100) to 2014 ($96,100). It is unclear if the announcement of the Controller's audit had any impact on what caused such a reduction in credit card charges.

Exhibit A.1, *Summary of Findings*, in Appendix A, provides the summary of all the Findings and Recommendations as a result of the audit procedures performed. The details of the Findings and Recommendations are in **Section III** of the Report.

We have obtained the brief and general response to the Draft Report from the Trusts and have included it in **Section IV** of this report, along with the Auditor's Rebuttal.