



Transmitted via e-mail

October 13, 2014

Mr. John Laird, Secretary
California Cultural and Historical Endowment
1416 Ninth Street, Suite 1311
Sacramento, CA 95814

Dear Mr. Laird:

Final Report—Los Angeles County Museum of Art, Proposition 40 Grant Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Los Angeles County Museum of Art's (LACMA) grant CCHER433, issued by the California Cultural and Historical Endowment.

The enclosed report is for your information and use. LACMA's response to the report observations is incorporated into this final report. LACMA agreed with our observations and we appreciate its willingness to implement corrective actions. This report will be placed on our website.

We appreciate the assistance and cooperation of LACMA. If you have any questions regarding this report, please contact Diana Antony, Manager, at (916) 322-2985.

Sincerely,

Original signed by:

Richard R. Sierra, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Polly Escovedo, Executive Officer (A), California Cultural and Historical Endowment
Mr. Patrick Kemp, Assistant Secretary for Administration and Finance, California Natural Resources Agency
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency
Mr. Michael Govan, Director, Los Angeles County Museum of Art
Ms. Ann Rowland, Chief Finance Officer, Los Angeles County Museum of Art
Mr. Mark Mitchell, Budget and Investment Officer, Los Angeles County Museum of Art

Los Angeles County Museum of Art
Proposition 40 Bond Program
Grant Agreement CCHER433



May Company Building

Prepared By:
Office of State Audits and Evaluations
Department of Finance

MEMBERS OF THE TEAM

Diana Antony, CPA
Manager

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Final reports are available on our website at <http://www.dof.ca.gov>

You can contact our office at:

Department of Finance
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814
(916) 322-2985

BACKGROUND, SCOPE AND METHODOLOGY

BACKGROUND

California voters approved the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40). The \$2.6 billion of bond proceeds finance a variety of cultural and natural resource programs.

The California Cultural and Historical Endowment (CCHE) is a state program tasked with preserving and protecting California's cultural heritage.

The Los Angeles County Museum of Art (LACMA) received a \$500,000 grant from CCHE to fund restoration work on the canopy and storefront of the historic 1930s-era May Company department store. This building is designated as a City of Los Angeles Cultural Heritage Monument and has served as the hub of the Museum's art education programs since 1994.

SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we audited grant agreement CCHER433 for the period February 10, 2009 through December 31, 2011.

The audit objectives were to determine whether LACMA's grant expenditures claimed were in compliance with applicable laws, regulations, and grant requirements; and to determine whether the grant deliverables were completed as required. We did not assess the efficiency or effectiveness of program operations.

LACMA management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. CCHE and the California Natural Resources Agency are responsible for the state-level administration of the bond program.

METHODOLOGY

To determine whether grant expenditures were in compliance with applicable laws, regulations, and the grant requirements; and if the grant deliverables were completed, we performed the following procedures:

- Examined the grant files, the grant agreement, and applicable policies and procedures.
- Reviewed LACMA's accounting records, vendor invoices, and cancelled checks.
- Selected a sample of claimed expenditures and determined whether they were allowable, grant-related, incurred within the grant period, supported by accounting records, and properly recorded.
- Evaluated whether other revenue sources were used to reimburse expenditures claimed for reimbursement under the grant agreement.

- Evaluated whether a sample of grant deliverables were met by conducting a site visit to verify existence of the restoration project.

In conducting our audit, we obtained an understanding of LACMA's internal controls, including any information systems controls, as they relate to and that we considered significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

We conducted this audit in accordance with generally accepted government performance auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

The results of the audit are based on our review of documentation, other information made available to us, and interviews with staff directly responsible for administering grant funds.

Except as noted below, the grant expenditures claimed complied with the grant requirements. Additionally, the grant deliverables were completed as specified in the grant agreement. The Schedule of Claimed and Questioned Amounts is presented below.

Schedule of Claimed and Questioned Amounts

Grant Agreement CCHER433		
Task	Claimed¹	Questioned
Demolition	\$ 6,450	
Storefront Repair	194,420	
Bronze Refinishing	70,761	
Electrical/Lighting	22,592	
Roof Coating	17,311	
Plaster Repair	17,380	
Benches	33,780	
Cleanup and Protection	7,410	
Design Architect	20,000	
Insurance	4,345	
Project Management	37,500	
General Contractor & Fees	48,516	
Total Grant Funds	\$ 480,465	\$ 0
Match Funds	288,279	26,290
Total Project Expenditures	\$ 768,744	\$ 26,290

Observation 1: Unsupported Match Expenditures

The Los Angeles County Museum of Art (LACMA) claimed \$26,290 in unsupported personnel match costs. LACMA does not track personnel hours by project. Specifically, LACMA employees charged time to the grant but were not required to maintain timesheets or other documentation, such as detailed calendars or activity logs to demonstrate time spent on the project. Without supporting documentation, LACMA cannot provide assurance that the \$26,290 in claimed match is grant-related, allowable, incurred within the grant period, supported by accounting records, and properly recorded.

Grant agreement, Exhibit D, section 4 requires the grantee to maintain satisfactory financial accounts, documents, and records relating to the project.

¹ The grant award was \$500,000; however, LACMA claimed \$480,465.

Recommendation:

Ensure all claimed expenditures are adequately supported and appropriate documentation is maintained. The California Cultural and Historical Endowment (CCHE) will make the final determination regarding the questioned match costs.

Observation 2: Non-Compliance with Contracting Requirements

LACMA did not follow competitive bidding procedures for one of its contractors that performed work on the bond-funded project. Specifically, LACMA entered into a construction contract that was not competitively bid. In addition, LACMA did not identify the subcontractor in the grant application or obtain approval from CCHE prior to awarding the contract. The competitive bidding requirement ensures bond funds are administered fairly and reasonably in the public's best interest.

Grant agreement, Exhibit D, section 1, states subcontractors not specifically identified in the grant application must be obtained using a competitive bidding process, or provide a satisfactory explanation and obtain CCHE approval for non-compliance with this requirement.

Recommendation:

Ensure compliance with all applicable contracting requirements in accordance with the grant agreement.

September 23, 2014

California Department of Finance
Attn: Richard R. Sierra, CPA
915 L Street
Sacramento, CA 95814-3706

Dear Mr. Sierra,

First of all, we were very grateful to have received the grant CCHER433 from the California Cultural and Historical Endowment which enabled us to restore the exterior of the old May Company building. With respect to the Auditor's observations, we agree and would like to explain the reasons for variance from standard grant requirements and emphasize that we will ensure that procedures are followed in all areas for any future grants.

Observation 1: Unsupported Match Expenditures

As the Auditor points out, the Museum does not have the backup information of personnel hours worked for \$26,290 worth of grant funds because the staff in question were either exempt Museum staff, who do not have timesheets or County Museum personnel who did not track time spent on the grant. The time reported as \$26,290 match was estimated by the Museum's former President, who, as project director, had the employees do the work for the restoration effort. We take note of the suggestion by the Auditor that, in the absence of timesheets, other forms of documentation would have been appropriate.

Observation 2: Non-Compliance with Contracting Requirements

While the Museum is not required to secure competitive bids for its general business, as the Auditor states, the Museum did not secure competitive bids for this project, as this grant required. The contractor was chosen for its expertise in detailed restoration projects. We fully appreciate the cost benefits that the use of multiple bidding can secure and will implement as much as possible. We intend to continue to solicit multiple bids going forward, assuming multiple vendors are qualified.

We hope it is clear from the audit that the project for which this grant was made was successfully completed and all the grant money was spent directly on this project. The restoration was very high quality and a key project in revitalizing an historic property which is now receiving further investment.

Sincerely,

Original signed by:

Michael Govan
Director
Los Angeles County Museum of Art