RON GALPERIN
CONTROLLER

April 30, 2015

Honorable Eric Garcetti, Mayor
Honorable Michael Feuer, City Attorney
Honorable Members of the Los Angeles City Council

Dear Colleagues:

Audit of IBEW-DWP Joint Safety Institute and Joint Training Institute

In 2000 and 2002, the Department of Water and Power and the International Brotherhood of Electrical Workers, Local 18, with the approval of the City Council, entered into agreements to create two trusts, the Joint Safety Institute and Joint Training Institute. The trusts were set up through the labor negotiation process to increase safety and productivity at DWP worksites. The trusts say that, since their inception, they have trained 9,645 people.

The trusts may have been created with the best of intentions, but even if they are steadfastly pursuing their missions and achieving their goals, it would be hard to know. The trusts have thus far operated in a climate of near-secrecy. Working out of offices in Sunland, the trusts' employees and the trustees who oversee them have thus far kept the organizations out of the public eye.

Nevertheless, the trusts are located on DWP property and funded with ratepayer money—which is to say, **public money**. The trusts' operations, performance and financials should be readily available to the public. Expenditures of taxpayer and ratepayer money should be accounted for, and there should be adequate checks in place to ensure that public money is spent wisely and in the most cost-effective way possible.

With this in mind, the Office of the Controller has completed an audit of the IBEW-DWP Joint Safety Institute and Joint Training Institute. Our audit's scope was financial. Each year, the DWP funds the two trusts according to a formula outlined in the trust agreements. Our goal was to determine how the trusts spent that ratepayer money and whether the trusts' expenses were reasonable. We looked at the time period from July 1, 2009 through June 30, 2014. The process, which included the transcribing of thousands of bank account and credit card transactions, was conducted by an outside auditing firm under the supervision of my office.

After a long and painstaking process, the trusts' expenditures and workings are now public.

Controller's Overall Assessment

In general, auditors found the trusts operate in an environment of lax oversight and inadequate financial controls. Many expenditures appear to have questionable relationships to the trusts' missions and goals. The management trustees are not optimally engaged in the trusts' operations, and the trusts appear to have a cavalier attitude toward the use of public money. The safeguards that public institutions usually put in place around the use of public funds are lacking.

Significant Findings

1. **The trusts have accumulated a combined cash balance of $11.3 million as of June 30, 2014.** On average, although the trusts received a combined income of $3.9 million per year, they spent just $3.5 million per year. Unfortunately, the formula used to calculate payments to the trusts does not take into account their actual budgetary needs. As a result, the trusts have accumulated enough reserve capital to fund themselves for about three years. What's more, the trusts do not have a written plan outlining how they intend to use their accumulated funds to promote workplace safety and training.

2 **The trusts issued credit cards to employees and put too few controls on their use.** The trusts issued 19 credit cards during the audit period. Trust employees charged $421,550 worth of conference registration fees, airfares, automobile expenses, lodging and food for trustees, administrators and employees attending conferences and meetings. While some of these expenses may be reasonable, the trusts lack formal policies regarding the use of credit cards and charges. Also, there does not appear to be adequate pre-authorization, limits, receipts or appropriate justification for the use of cards, leading to an environment lacking accountability.

3. **Administrators used trust-issued credit cards to charge $86,764 worth of auto-related expenses for their personal cars.** Trust credit cards were used for gasoline, parking and car washes. One administrator purchased $30,000 in gasoline during the five years studied. In addition, the trusts provided administrators with $500 monthly automobile allowances. Under IRS regulations, automobile expenses charged to the credit cards should have been reported as income, which they were not. Auditors recommend that the trusts issue amended W-2's to affected employees. Notably, increased scrutiny of the trusts by the media and the Controller's office coincided with a dramatic decrease in credit card charges in FY 2013-14.

4 **JSI paid approximately 110 DWP employees more than $560,400 to conduct training courses, an apparent violation of its trust agreement**. The trust agreement prohibits compensating employees or managers of IBEW or the DWP to attend or participate in programs. In 2013 and 2014, however, JSI paid DWP employees an average of $5,100 each to conduct training sessions as part of its Safe Start Program.

5. **The trusts repeatedly entered into non-competitively bid contracts.** Auditors could not determine that any of the contracts entered into during the audit period were established to obtain the best value or lowest price. Auditors identified 19 instances where, when contracts expired, the trusts simply executed change orders or issued new contracts without soliciting competitive bids.

6. **Salaries paid to trust employees exceed all benchmarked salaries in the State of California**. Trust employees receive compensation far in excess of what other employees in California get for doing the same work. What's more, the trusts are top-heavy with handsomely compensated administrators, who are paid $222,000 each—a bump up from the salaries many got from the DWP before they were assigned to the trusts.

My office has issued a series of actionable recommendations, including the following:

1. **In the name of transparency and accountability, the trusts should be required to report their detailed expenditures and performance annually to the Council and to the DWP Board of Commissioners**. Exclusive of the trusts, the DWP says it spends $100 million per year on training and safety. City leaders should be able to judge the usefulness of these two trusts and determine whether the $4 million they pay to the trusts each year truly is necessary for the health, well-being and training of DWP employees.

2. **The trustees—and especially the management trustees—should institute formal controls over the trusts' financial policies**. Effective and efficient organizations must account for their spending in a controlled, consistent and transparent manner. Proper oversight by management would strengthen the trusts' operations and make them more professional.

3. **The Council should renegotiate the trust agreements through the labor negotiation process so that the trusts are funded according to their needs**—not through a formula that yields them far in excess of their budgetary requirements. **The Council should also renegotiate the trust agreements so as to consolidate the operations of the two trusts**. The two trusts perform similar purposes, serve the same beneficiaries and often duplicate costs. Auditors identified up to $739,000 in savings that could be achieved by merging the two trusts and consolidating their operations.

Respectfully Submitted,

RON GALPERIN
City Controller

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