



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS
APPLICABLE TO PROPOSITION A AND PROPOSITION C
ORDINANCES AND PROPOSITION A AND PROPOSITION C
LOCAL RETURN GUIDELINES**

**TO THE LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY**

FOR THE FISCAL YEAR ENDED JUNE 30, 2017



Simpson & Simpson, LLP
Certified Public Accountants

**Los Angeles County Metropolitan Transportation Authority
Proposition A and Proposition C Local Return Funds
Consolidated Audit Report
Fiscal Year Ended June 30, 2017**

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SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

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BRAINARD C. SIMPSON, CPA
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**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO PROPOSITION A AND PROPOSITION C ORDINANCES AND
PROPOSTION A AND PROPOSITION C LOCAL RETURN GUIDELINES**

To: Board of Directors of the Los Angeles County Metropolitan Transportation Authority
and Proposition A and Proposition C Oversight Committee

Report on Compliance

We have audited the compliance of the forty-nine (49) Cities and the County of Los Angeles (the County) identified in Schedule 1, with the types of compliance requirements described in the Proposition A and Proposition C Ordinances enacted through a Los Angeles County voter approved law in November 1980 and November 1990, respectively; Proposition A and Proposition C Local Return Guidelines, issued by the Los Angeles County Metropolitan Transportation Authority (LACMTA), approved by its Board of Directors in FY 2006-07 (collectively, the Guidelines); and the respective Assurances and Understandings Regarding Receipt and Use of Proposition A and Proposition C Local Return Funds, executed by LACMTA and the respective Cities and the County for the year ended June 30, 2017 (collectively, the Requirements). Compliance with the above noted Guidelines and Requirements by the Cities and the County are identified in the accompanying Summary of Compliance Findings, Schedule 1 and Schedule 2.

Management’s Responsibility

Compliance with the Guidelines and Requirements is the responsibility of the respective Cities' and the County's management.

Auditor’s Responsibility

Our responsibility is to express opinions on each City’s and the County’s compliance with the Guidelines and Requirements referred to above based on our audits. We conducted our audits of compliance in accordance with the 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 audits to obtain reasonable assurance about whether noncompliance with the types of requirements referred to above that could have a direct and material effect on the Proposition A and Proposition C Local Return programs occurred. An audit includes examining, on a test basis, evidence about each City's and the County's compliance with the Guidelines and Requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audits provide a reasonable basis for our opinions on compliance. However, our audits do not provide a legal determination of each City's and the County's compliance with the Guidelines and Requirements.





Opinion

In our opinion, the Cities and the County complied, in all material respects, with the Guidelines and Requirements referred to above that could have a direct and material effect on the Proposition A and Proposition C Local Return programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Guidelines and Requirements and which are described in the accompanying Summary of Audit Results (Schedule 1) and Schedule of Findings and Questioned Costs (Schedule 2) as Findings #2017-001 through #2017-042. Our opinion is not modified with respect to these matters.

Responses by the Cities to the noncompliance findings identified in our audits are described in the accompanying Schedule 2 - Schedule of Findings and Questioned Costs. The Cities' responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

The management of each City and the County is responsible for establishing and maintaining effective internal control over compliance with the Guidelines and Requirements referred to above. In planning and performing our audits of compliance, we considered each City's and the County's internal control over compliance with the Guidelines and the Requirements that could have a direct and material effect on the Proposition A and Proposition C Local Return programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Guidelines and Requirements, 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 each City's and the County's internal control over compliance.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 under the Guidelines and Requirements on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance under the Guidelines and Requirements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs (Schedule 2) as Findings #2017-004, #2017-005, #2017-012 (PALRF), #2017-013, and #2017-024 to be material weaknesses.



A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with the Guidelines and Requirements that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs (Schedule 2) as Findings #2017-012 (PCLRF), #2017-019, and #2017-037 that we consider to be significant deficiencies.

The responses by the Cities to the internal control over compliance findings identified in our audits are described in the accompanying Schedule of Findings and Questioned Costs (Schedule 2). The responses by the Cities were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing on internal control over compliance and the results of that testing based on the requirements of the Guidelines and Requirements. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Simpson & Simpson".

Los Angeles, California
December 29, 2017

**Los Angeles County Metropolitan Transportation Authority
Proposition A and Proposition C Local Return Funds
Summary of Compliance Findings
Fiscal Year Ended June 30, 2017**

The audits of the 49 cities and the County identified in Schedule 1 have resulted in 42 findings. The table below shows a summary of the findings:

Finding	# of Findings	Responsible Cities/ Finding No. Reference	Questioned Costs		Resolved During the Audit
			PALRF	PCLRF	
No timely use of funds.	7	Alhambra (#2017-001)	N/A	\$ 443,811	\$ 443,811
		Bradbury (#2017-007)	\$ 3,448	N/A	3,448
		Covina (#2017-010)	N/A	38,028	38,028
		Hermosa Beach (#2017-018)	16,951	N/A	16,951
		La Mirada (#2017-022)	N/A	6,165	-
		San Dimas (#2017-031)	N/A	59,596	-
		Signal Hill (#2017-034)	28,355	N/A	28,355
Funds were expended without LACMTA's approval.	8	Duarte (#2017-014)	N/A	10,000	10,000
		Glendora (#2017-016)	63,190	321,578	384,768
		Hawaiian Gardens (#2017-017)	N/A	26,500	26,500
		Palos Verdes Estates (#2017-027)	669,522	N/A	669,522
		Palos Verdes Estates (#2017-028)	6,016	N/A	6,016
		Rolling Hills Estate (#2017-030)	N/A	12,133	12,133
		South Pasadena (#2017-036)	72,873	N/A	72,873
		West Covina (#2017-041)	54,540	314,454	368,994
Total annual expenditures exceeded more than 25% of the approved budget	5	Bradbury (#2017-008)	N/A	-	-
		Covina (#2017-011)	-	N/A	-
		La Habra Heights (#2017-020)	-	N/A	-
		La Habra Heights (#2017-021)	N/A	-	-
		South Pasadena (#2017-037)	-	N/A	-
Annual Project Summary Report (Form B) was not submitted on time.	3	Bradbury (#2017-009)	-	-	-
		San Marino (#2017-032)	-	-	-
		South Pasadena (#2017-038)	-	-	-
Annual Expenditure Report (Form C) was not submitted on time.	1	Artesia (#2017-002)	-	-	-

**Los Angeles County Metropolitan Transportation Authority
Proposition A and Proposition C Local Return Funds
Summary of Compliance Findings
Fiscal Year Ended June 30, 2017**

Finding	# of Findings	Responsible Cities/ Finding Reference	Questioned Costs		Resolved During the Audit
			PALRF	PCLRF	
No adequate evidence that funds were expended for transportation purposes.	7	Artesia (#2017-005) Downey (#2017-012) Downey (#2017-013) Lakewood (#2017-024) Lomita (#2017-025) Norwalk (#2017-026) Signal Hill (#2017-035)	\$ 85,003 160,466 155,000 115,434 - N/A 15,266	\$ 47,348 39,683 N/A 156,758 N/A 454 N/A	- - - - - \$ 454 -
Accounting procedures, record keeping, and documentation are adequate.	7	Artesia (#2017-006) Duarte (#2017-015) La Cañada Flintridge (#2017-019) La Verne (#2017-023) Sierra Madre (#2017-033) Temple City (#2017-039) Whittier (#2017-042)	- - - N/A - - -	- - - - N/A N/A N/A	- - - - - - -
Administrative expenses exceeded the 20% cap.	2	Artesia (#2017-004) Redondo Beach (#2017-029)	(Note1) 64,906 86,523	(Note1) 19,193 N/A	- -
Local Return Account is credited for reimbursable expenditures	1	Temple City (#2017-040)	3,668	4,221	7,889
Recreational transit form was not submitted on time.	1	Artesia (#2017-003)	-	N/A	-
Total Findings and Questioned Cost	42		\$ 1,536,255	\$ 1,480,729	\$ 2,089,742

1) N/A – No finding.

2) Note 1: Questioned costs of \$64,906 and \$19,193 for PALRF and PCLRF, respectively, are part of the questioned costs noted on Finding #2017-005.

3) Details of the findings are in Schedule 2.

**Los Angeles County Metropolitan Transportation Authority
Proposition A and Proposition C Local Return Funds
Summary of Audit Results
Fiscal Year Ended June 30, 2017**

Compliance Area Tested	Alhambra	Arcadia	Artesia
Uses the State Controller's Uniform System of Accounts and Records.	Compliant	Compliant	Compliant
Timely use of funds.	See Finding #2017-001	Compliant	Compliant
Funds expended were approved and have not been substituted for property tax.	Compliant	Compliant	See Finding #2017-005
Expenditures that exceeded 25% of approved project budget have approved amended project Description Form (Form A).	Compliant	Compliant	Compliant
Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	Compliant	Compliant	See Finding #2017-004
All on-going and carryover projects were reported in Form B.	Compliant	Compliant	Compliant
Annual Project Summary Report (Form B) was submitted on time.	Compliant	Compliant	Compliant
Annual Expenditure Report (Form C) was submitted on time.	Compliant	Compliant	See Finding #2017-002
Cash or cash equivalents are maintained.	Compliant	Compliant	Compliant
Accounting procedures, record keeping and documentation are adequate.	Compliant	Compliant	See Finding #2017-006
Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	Compliant	Compliant	Compliant
Local Return Account is credited for reimbursable expenditures.	Compliant	Compliant	Compliant
Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.	Compliant	Compliant	Compliant
Assurances and Understandings form was on file.	Compliant	Compliant	Compliant
Recreational transit form was submitted on time.	Compliant	Compliant	See Finding #2017-003

**Los Angeles County Metropolitan Transportation Authority
Proposition A and Proposition C Local Return Funds
Summary of Audit Results
Fiscal Year Ended June 30, 2017
(Continued)**

Compliance Area Tested	Avalon	Bellflower	Bradbury
Uses the State Controller's Uniform System of Accounts and Records.	Compliant	Compliant	Compliant
Timely use of funds.	Compliant	Compliant	See Finding #2017-007
Funds expended were approved and have not been substituted for property tax.	Compliant	Compliant	PA: N/A PC: Compliant
Expenditures that exceeded 25% of approved project budget have approved amended project Description Form (Form A).	Compliant	Compliant	See Finding #2017-008
Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	Compliant	Compliant	PA: N/A PC: Compliant
All on-going and carryover projects were reported in Form B.	Compliant	Compliant	Compliant
Annual Project Summary Report (Form B) was submitted on time.	Compliant	Compliant	See Finding #2017-009
Annual Expenditure Report (Form C) was submitted on time.	Compliant	Compliant	Compliant
Cash or cash equivalents are maintained.	Compliant	Compliant	Compliant
Accounting procedures, record keeping and documentation are adequate.	Compliant	Compliant	Compliant
Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	Compliant	Compliant	Compliant
Local Return Account is credited for reimbursable expenditures.	Compliant	Compliant	Compliant
Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.	Compliant	Compliant	Compliant
Assurances and Understandings form was on file.	Compliant	Compliant	Compliant
Recreational transit form was submitted on time.	Compliant	Compliant	PA: N/A PC: Compliant

**Los Angeles County Metropolitan Transportation Authority
Proposition A and Proposition C Local Return Funds
Summary of Audit Results
Fiscal Year Ended June 30, 2017
(Continued)**

Compliance Area Tested	Burbank	Cerritos	Claremont
Uses the State Controller's Uniform System of Accounts and Records.	Compliant	Compliant	Compliant
Timely use of funds.	Compliant	Compliant	Compliant
Funds expended were approved and have not been substituted for property tax.	Compliant	Compliant	Compliant
Expenditures that exceeded 25% of approved project budget have approved amended project Description Form (Form A).	Compliant	Compliant	Compliant
Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	Compliant	Compliant	Compliant
All on-going and carryover projects were reported in Form B.	Compliant	Compliant	Compliant
Annual Project Summary Report (Form B) was submitted on time.	Compliant	Compliant	Compliant
Annual Expenditure Report (Form C) was submitted on time.	Compliant	Compliant	Compliant
Cash or cash equivalents are maintained.	Compliant	Compliant	Compliant
Accounting procedures, record keeping and documentation are adequate.	Compliant	Compliant	Compliant
Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	Compliant	Compliant	Compliant
Local Return Account is credited for reimbursable expenditures.	Compliant	Compliant	Compliant
Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.	Compliant	Compliant	Compliant
Assurances and Understandings form was on file.	Compliant	Compliant	Compliant
Recreational transit form was submitted on time.	Compliant	Compliant	Compliant

**Los Angeles County Metropolitan Transportation Authority
Proposition A and Proposition C Local Return Funds
Summary of Audit Results
Fiscal Year Ended June 30, 2017
(Continued)**

Compliance Area Tested	Covina	Diamond Bar	Downey
Uses the State Controller's Uniform System of Accounts and Records.	Compliant	Compliant	Compliant
Timely use of funds.	See Finding #2017-010	Compliant	Compliant
Funds expended were approved and have not been substituted for property tax.	Compliant	Compliant	See Finding #2017-012 #2017-013
Expenditures that exceeded 25% of approved project budget have approved amended project Description Form (Form A).	See Finding #2017-011	Compliant	Compliant
Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	Compliant	Compliant	Compliant
All on-going and carryover projects were reported in Form B.	Compliant	Compliant	Compliant
Annual Project Summary Report (Form B) was submitted on time.	Compliant	Compliant	Compliant
Annual Expenditure Report (Form C) was submitted on time.	Compliant	Compliant	Compliant
Cash or cash equivalents are maintained.	Compliant	Compliant	Compliant
Accounting procedures, record keeping and documentation are adequate.	Compliant	Compliant	Compliant
Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	Compliant	Compliant	Compliant
Local Return Account is credited for reimbursable expenditures.	Compliant	Compliant	Compliant
Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.	Compliant	Compliant	Compliant
Assurances and Understandings form was on file.	Compliant	Compliant	Compliant
Recreational transit form was submitted on time.	Compliant	Compliant	Compliant

**Los Angeles County Metropolitan Transportation Authority
Proposition A and Proposition C Local Return Funds
Summary of Audit Results
Fiscal Year Ended June 30, 2017
(Continued)**

Compliance Area Tested	Duarte	El Segundo	Glendale
Uses the State Controller's Uniform System of Accounts and Records.	Compliant	Compliant	Compliant
Timely use of funds.	Compliant	Compliant	Compliant
Funds expended were approved and have not been substituted for property tax.	See Finding #2017-014	Compliant	Compliant
Expenditures that exceeded 25% of approved project budget have approved amended project Description Form (Form A).	Compliant	Compliant	Compliant
Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	Compliant	Compliant	Compliant
All on-going and carryover projects were reported in Form B.	Compliant	Compliant	Compliant
Annual Project Summary Report (Form B) was submitted on time.	Compliant	Compliant	Compliant
Annual Expenditure Report (Form C) was submitted on time.	Compliant	Compliant	Compliant
Cash or cash equivalents are maintained.	Compliant	Compliant	Compliant
Accounting procedures, record keeping and documentation are adequate.	See Finding #2017-015	Compliant	Compliant
Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	Compliant	Compliant	Compliant
Local Return Account is credited for reimbursable expenditures.	Compliant	Compliant	Compliant
Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.	Compliant	Compliant	Compliant
Assurances and Understandings form was on file.	Compliant	Compliant	Compliant
Recreational transit form was submitted on time.	Compliant	Compliant	Compliant

**Los Angeles County Metropolitan Transportation Authority
Proposition A and Proposition C Local Return Funds
Summary of Audit Results
Fiscal Year Ended June 30, 2017
(Continued)**

Compliance Area Tested	Glendora	Hawaiian Gardens	Hermosa Beach
Uses the State Controller's Uniform System of Accounts and Records.	Compliant	Compliant	Compliant
Timely use of funds.	Compliant	Compliant	See Finding #2017-018
Funds expended were approved and have not been substituted for property tax.	See Finding #2017-016	See Finding #2017-017	Compliant
Expenditures that exceeded 25% of approved project budget have approved amended project Description Form (Form A).	Compliant	Compliant	Compliant
Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	Compliant	Compliant	Compliant
All on-going and carryover projects were reported in Form B.	Compliant	Compliant	Compliant
Annual Project Summary Report (Form B) was submitted on time.	Compliant	Compliant	Compliant
Annual Expenditure Report (Form C) was submitted on time.	Compliant	Compliant	Compliant
Cash or cash equivalents are maintained.	Compliant	Compliant	Compliant
Accounting procedures, record keeping and documentation are adequate.	Compliant	Compliant	Compliant
Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	Compliant	Compliant	Compliant
Local Return Account is credited for reimbursable expenditures.	Compliant	Compliant	Compliant
Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.	Compliant	Compliant	Compliant
Assurances and Understandings form was on file.	Compliant	Compliant	Compliant
Recreational transit form was submitted on time.	Compliant	Compliant	Compliant

**Los Angeles County Metropolitan Transportation Authority
Proposition A and Proposition C Local Return Funds
Summary of Audit Results
Fiscal Year Ended June 30, 2017
(Continued)**

Compliance Area Tested	La Cañada Flintridge	La Habra Heights	La Mirada
Uses the State Controller's Uniform System of Accounts and Records.	Compliant	Compliant	Compliant
Timely use of funds.	Compliant	Compliant	See Finding #2017-022
Funds expended were approved and have not been substituted for property tax.	Compliant	Compliant	Compliant
Expenditures that exceeded 25% of approved project budget have approved amended project Description Form (Form A).	Compliant	See Findings #2017-020 #2017-021	Compliant
Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	Compliant	Compliant	Compliant
All on-going and carryover projects were reported in Form B.	Compliant	Compliant	Compliant
Annual Project Summary Report (Form B) was submitted on time.	Compliant	Compliant	Compliant
Annual Expenditure Report (Form C) was submitted on time.	Compliant	Compliant	Compliant
Cash or cash equivalents are maintained.	Compliant	Compliant	Compliant
Accounting procedures, record keeping and documentation are adequate.	See Finding #2017-019	Compliant	Compliant
Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	Compliant	Compliant	Compliant
Local Return Account is credited for reimbursable expenditures.	Compliant	Compliant	Compliant
Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.	Compliant	Compliant	Compliant
Assurances and Understandings form was on file.	Compliant	Compliant	Compliant
Recreational transit form was submitted on time.	Compliant	Compliant	Compliant

**Los Angeles County Metropolitan Transportation Authority
Proposition A and Proposition C Local Return Funds
Summary of Audit Results
Fiscal Year Ended June 30, 2017
(Continued)**

Compliance Area Tested	La Verne	Lakewood	Lancaster
Uses the State Controller's Uniform System of Accounts and Records.	Compliant	Compliant	Compliant
Timely use of funds.	Compliant	Compliant	Compliant
Funds expended were approved and have not been substituted for property tax.	Compliant	See Finding #2017-024	Compliant
Expenditures that exceeded 25% of approved project budget have approved amended project Description Form (Form A).	Compliant	Compliant	Compliant
Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	Compliant	Compliant	Compliant
All on-going and carryover projects were reported in Form B.	Compliant	Compliant	Compliant
Annual Project Summary Report (Form B) was submitted on time.	Compliant	Compliant	Compliant
Annual Expenditure Report (Form C) was submitted on time.	Compliant	Compliant	Compliant
Cash or cash equivalents are maintained.	Compliant	Compliant	Compliant
Accounting procedures, record keeping and documentation are adequate.	See Finding #2017-023	Compliant	Compliant
Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	Compliant	Compliant	Compliant
Local Return Account is credited for reimbursable expenditures.	Compliant	Compliant	Compliant
Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.	Compliant	Compliant	Compliant
Assurances and Understandings form was on file.	Compliant	Compliant	Compliant
Recreational transit form was submitted on time.	Compliant	Compliant	Compliant

**Los Angeles County Metropolitan Transportation Authority
Proposition A and Proposition C Local Return Funds
Summary of Audit Results
Fiscal Year Ended June 30, 2017
(Continued)**

Compliance Area Tested	Lomita	Long Beach	Los Angeles City
Uses the State Controller's Uniform System of Accounts and Records.	Compliant	Compliant	Compliant
Timely use of funds.	Compliant	Compliant	Compliant
Funds expended were approved and have not been substituted for property tax.	See Finding #2017-025	Compliant	Compliant
Expenditures that exceeded 25% of approved project budget have approved amended project Description Form (Form A).	Compliant	Compliant	Compliant
Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	Compliant	Compliant	Compliant
All on-going and carryover projects were reported in Form B.	Compliant	Compliant	Compliant
Annual Project Summary Report (Form B) was submitted on time.	Compliant	Compliant	Compliant
Annual Expenditure Report (Form C) was submitted on time.	Compliant	Compliant	Compliant
Cash or cash equivalents are maintained.	Compliant	Compliant	Compliant
Accounting procedures, record keeping and documentation are adequate.	Compliant	Compliant	Compliant
Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	Compliant	Compliant	Compliant
Local Return Account is credited for reimbursable expenditures.	Compliant	Compliant	Compliant
Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.	Compliant	Compliant	Compliant
Assurances and Understandings form was on file.	Compliant	Compliant	Compliant
Recreational transit form was submitted on time.	Compliant	Compliant	Compliant

Los Angeles County Metropolitan Transportation Authority
Proposition A and Proposition C Local Return Funds
Summary of Audit Results
Fiscal Year Ended June 30, 2017
(Continued)

Compliance Area Tested	Los Angeles County	Manhattan Beach	Monrovia
Uses the State Controller's Uniform System of Accounts and Records.	Compliant	Compliant	Compliant
Timely use of funds.	Compliant	Compliant	Compliant
Funds expended were approved and have not been substituted for property tax.	Compliant	Compliant	Compliant
Expenditures that exceeded 25% of approved project budget have approved amended project Description Form (Form A).	Compliant	Compliant	Compliant
Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	Compliant	Compliant	Compliant
All on-going and carryover projects were reported in Form B.	Compliant	Compliant	Compliant
Annual Project Summary Report (Form B) was submitted on time.	Compliant	Compliant	Compliant
Annual Expenditure Report (Form C) was submitted on time.	Compliant	Compliant	Compliant
Cash or cash equivalents are maintained.	Compliant	Compliant	Compliant
Accounting procedures, record keeping and documentation are adequate.	Compliant	Compliant	Compliant
Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	Compliant	Compliant	Compliant
Local Return Account is credited for reimbursable expenditures.	Compliant	Compliant	Compliant
Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.	Compliant	Compliant	Compliant
Assurances and Understandings form was on file.	Compliant	Compliant	Compliant
Recreational transit form was submitted on time.	Compliant	Compliant	Compliant

Los Angeles County Metropolitan Transportation Authority
Proposition A and Proposition C Local Return Funds
Summary of Audit Results
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(Continued)

Compliance Area Tested	Norwalk	Palmdale	Palos Verdes Estates
Uses the State Controller's Uniform System of Accounts and Records.	Compliant	Compliant	Compliant
Timely use of funds.	Compliant	Compliant	Compliant
Funds expended were approved and have not been substituted for property tax.	See Finding #2017-026	Compliant	PA: See Finding #2017-027 #2017-028 PC: N/A
Expenditures that exceeded 25% of approved project budget have approved amended project Description Form (Form A).	Compliant	Compliant	Compliant
Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	Compliant	Compliant	PA: Compliant PC: N/A
All on-going and carryover projects were reported in Form B.	Compliant	Compliant	Compliant
Annual Project Summary Report (Form B) was submitted on time.	Compliant	Compliant	Compliant
Annual Expenditure Report (Form C) was submitted on time.	Compliant	Compliant	Compliant
Cash or cash equivalents are maintained.	Compliant	Compliant	Compliant
Accounting procedures, record keeping and documentation are adequate.	Compliant	Compliant	Compliant
Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	Compliant	Compliant	Compliant
Local Return Account is credited for reimbursable expenditures.	Compliant	Compliant	Compliant
Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.	Compliant	Compliant	Compliant
Assurances and Understandings form was on file.	Compliant	Compliant	Compliant
Recreational transit form was submitted on time.	Compliant	Compliant	PA: Compliant PC: N/A

**Los Angeles County Metropolitan Transportation Authority
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Summary of Audit Results
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(Continued)**

Compliance Area Tested	Paramount	Pasadena	Rancho Palos Verdes
Uses the State Controller's Uniform System of Accounts and Records.	Compliant	Compliant	Compliant
Timely use of funds.	Compliant	Compliant	Compliant
Funds expended were approved and have not been substituted for property tax.	Compliant	Compliant	Compliant
Expenditures that exceeded 25% of approved project budget have approved amended project Description Form (Form A).	Compliant	Compliant	Compliant
Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	Compliant	Compliant	Compliant
All on-going and carryover projects were reported in Form B.	Compliant	Compliant	Compliant
Annual Project Summary Report (Form B) was submitted on time.	Compliant	Compliant	Compliant
Annual Expenditure Report (Form C) was submitted on time.	Compliant	Compliant	Compliant
Cash or cash equivalents are maintained.	Compliant	Compliant	Compliant
Accounting procedures, record keeping and documentation are adequate.	Compliant	Compliant	Compliant
Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	Compliant	Compliant	Compliant
Local Return Account is credited for reimbursable expenditures.	Compliant	Compliant	Compliant
Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.	Compliant	Compliant	Compliant
Assurances and Understandings form was on file.	Compliant	Compliant	Compliant
Recreational transit form was submitted on time.	Compliant	Compliant	Compliant

**Los Angeles County Metropolitan Transportation Authority
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Summary of Audit Results
Fiscal Year Ended June 30, 2017
(Continued)**

Compliance Area Tested	Redondo Beach	Rolling Hills	Rolling Hills Estates
Uses the State Controller's Uniform System of Accounts and Records.	Compliant	Compliant	Compliant
Timely use of funds.	Compliant	Compliant	Compliant
Funds expended were approved and have not been substituted for property tax.	Compliant	Compliant	See Finding #2017-030
Expenditures that exceeded 25% of approved project budget have approved amended project Description Form (Form A).	Compliant	Compliant	Compliant
Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	PA: See Finding #2017-029 PC: N/A	Compliant	Compliant
All on-going and carryover projects were reported in Form B.	Compliant	Compliant	Compliant
Annual Project Summary Report (Form B) was submitted on time.	Compliant	Compliant	Compliant
Annual Expenditure Report (Form C) was submitted on time.	Compliant	Compliant	Compliant
Cash or cash equivalents are maintained.	Compliant	Compliant	Compliant
Accounting procedures, record keeping and documentation are adequate.	Compliant	Compliant	Compliant
Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	Compliant	Compliant	Compliant
Local Return Account is credited for reimbursable expenditures.	Compliant	Compliant	Compliant
Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.	Compliant	Compliant	Compliant
Assurances and Understandings form was on file.	Compliant	Compliant	Compliant
Recreational transit form was submitted on time.	Compliant	Compliant	Compliant

**Los Angeles County Metropolitan Transportation Authority
Proposition A and Proposition C Local Return Funds
Summary of Audit Results
Fiscal Year Ended June 30, 2017
(Continued)**

Compliance Area Tested	San Dimas	San Gabriel	San Marino
Uses the State Controller's Uniform System of Accounts and Records.	Compliant	Compliant	Compliant
Timely use of funds.	See Finding #2017-031	Compliant	Compliant
Funds expended were approved and have not been substituted for property tax.	Compliant	Compliant	Compliant
Expenditures that exceeded 25% of approved project budget have approved amended project Description Form (Form A).	Compliant	Compliant	Compliant
Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	Compliant	Compliant	Compliant
All on-going and carryover projects were reported in Form B.	Compliant	Compliant	Compliant
Annual Project Summary Report (Form B) was submitted on time.	Compliant	Compliant	See Finding #2017-032
Annual Expenditure Report (Form C) was submitted on time.	Compliant	Compliant	Compliant
Cash or cash equivalents are maintained.	Compliant	Compliant	Compliant
Accounting procedures, record keeping and documentation are adequate.	Compliant	Compliant	Compliant
Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	Compliant	Compliant	Compliant
Local Return Account is credited for reimbursable expenditures.	Compliant	Compliant	Compliant
Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.	Compliant	Compliant	Compliant
Assurances and Understandings form was on file.	Compliant	Compliant	Compliant
Recreational transit form was submitted on time.	Compliant	Compliant	Compliant

**Los Angeles County Metropolitan Transportation Authority
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Fiscal Year Ended June 30, 2017
(Continued)**

Compliance Area Tested	Santa Clarita	Sierra Madre	Signal Hill
Uses the State Controller's Uniform System of Accounts and Records.	Compliant	Compliant	Compliant
Timely use of funds.	Compliant	Compliant	See Finding #2017-034
Funds expended were approved and have not been substituted for property tax.	Compliant	Compliant	See Finding #2017-035
Expenditures that exceeded 25% of approved project budget have approved amended project Description Form (Form A).	Compliant	Compliant	Compliant
Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	Compliant	Compliant	Compliant
All on-going and carryover projects were reported in Form B.	Compliant	Compliant	Compliant
Annual Project Summary Report (Form B) was submitted on time.	Compliant	Compliant	Compliant
Annual Expenditure Report (Form C) was submitted on time.	Compliant	Compliant	Compliant
Cash or cash equivalents are maintained.	Compliant	Compliant	Compliant
Accounting procedures, record keeping and documentation are adequate.	Compliant	See Finding #2017-033	Compliant
Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	Compliant	Compliant	Compliant
Local Return Account is credited for reimbursable expenditures.	Compliant	Compliant	Compliant
Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.	Compliant	Compliant	Compliant
Assurances and Understandings form was on file.	Compliant	Compliant	Compliant
Recreational transit form was submitted on time.	Compliant	Compliant	Compliant

**Los Angeles County Metropolitan Transportation Authority
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(Continued)**

Compliance Area Tested	South Pasadena	Temple City	Torrance
Uses the State Controller's Uniform System of Accounts and Records.	Compliant	Compliant	Compliant
Timely use of funds.	Compliant	Compliant	Compliant
Funds expended were approved and have not been substituted for property tax.	See Finding #2017-036	PA: Compliant PC: N/A	Compliant
Expenditures that exceeded 25% of approved project budget have approved amended project Description Form (Form A).	See Finding #2017-037	Compliant	Compliant
Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	Compliant	PA: Compliant PC: N/A	Compliant
All on-going and carryover projects were reported in Form B.	Compliant	Compliant	Compliant
Annual Project Summary Report (Form B) was submitted on time.	See Finding #2017-038	Compliant	Compliant
Annual Expenditure Report (Form C) was submitted on time.	Compliant	Compliant	Compliant
Cash or cash equivalents are maintained.	Compliant	Compliant	Compliant
Accounting procedures, record keeping and documentation are adequate.	Compliant	See Finding #2017-039	Compliant
Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	Compliant	Compliant	Compliant
Local Return Account is credited for reimbursable expenditures.	Compliant	See Finding #2017-040	Compliant
Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.	Compliant	Compliant	Compliant
Assurances and Understandings form was on file.	Compliant	Compliant	Compliant
Recreational transit form was submitted on time.	Compliant	PA: Compliant PC: N/A	Compliant

**Los Angeles County Metropolitan Transportation Authority
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Summary of Audit Results
Fiscal Year Ended June 30, 2017
(Continued)**

Compliance Area Tested	West Covina	Whittier
Uses the State Controller's Uniform System of Accounts and Records.	Compliant	Compliant
Timely use of funds.	Compliant	Compliant
Funds expended were approved and have not been substituted for property tax.	See Finding #2017-041	Compliant
Expenditures that exceeded 25% of approved project budget have approved amended project Description Form (Form A).	Compliant	Compliant
Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	Compliant	Compliant
All on-going and carryover projects were reported in Form B.	Compliant	Compliant
Annual Project Summary Report (Form B) was submitted on time.	Compliant	Compliant
Annual Expenditure Report (Form C) was submitted on time.	Compliant	Compliant
Cash or cash equivalents are maintained.	Compliant	Compliant
Accounting procedures, record keeping and documentation are adequate.	Compliant	See Finding #2017-042
Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	Compliant	Compliant
Local Return Account is credited for reimbursable expenditures.	Compliant	Compliant
Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.	Compliant	Compliant
Assurances and Understandings form was on file.	Compliant	Compliant
Recreational transit form was submitted on time.	Compliant	Compliant

**Los Angeles County Metropolitan Transportation Authority
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PCLRF Finding #2017-001	City of Alhambra
Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, IV. Finance Section: E – Timely Use of Funds, “Jurisdictions have three years to expend LR funds. Funds must be expended within three years of the last day of the fiscal year in which funds were originally allocated. Therefore, by method of calculation, each Jurisdiction has the Fiscal Year of allocation plus three years to expend Proposition A and/or Proposition C funds.”
Condition	<p>A portion of the City’s fiscal year 2013-14 ending fund balance in the amount of \$443,811 was not fully expended within 3 years as of June 30, 2017 and was not reserved for capital projects as required by Local Return guidelines.</p> <p>The City contacted LACMTA on November 27, 2017 to request the Proposition C Local Return funds to be placed on capital reserve and obtain LACMTA Board of Directors’ approval. The LACMTA Board meeting will be held in May 2018.</p>
Cause	The City did not identify additional eligible Proposition C projects in a timely manner to avoid the lapsing of funds.
Effect	The Proposition C Local Return funds were not expended or reserved within the Timely Use period. Since LACMTA granted an extension to spend the lapsed funds until June 30, 2018, there are no questioned costs.
Recommendation	We recommend that the City establish a policy in place where the City Manager, City Engineer and Finance Department discuss the availability of Proposition C Local Return funds in conjunction with any eligible PCLRF projects and submit its Form B (Annual Project Update Form) on time. Alternative measure would include requesting a Capital Reserve Agreement with LACMTA.
Management’s Response	The City submitted the Form A Capital Reserve Request to LACMTA on November 27, 2017. The City will more closely monitor the use of available Proposition C Local Return Funds to avoid the lapsing of funds in the future.
Finding Corrected During Audit	LACMTA Program Manager granted the City an extension for the use of lapsed Proposition C Local Return Funds up to June 30, 2018.

**Los Angeles County Metropolitan Transportation Authority
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 Fiscal Year Ended June 30, 2017
 (Continued)**

PALRF & PCLRF Finding#2017-002	City of Artesia
Compliance Requirement	According to Proposition A and Proposition C Local Return Guidelines, Section I (C), “On or before October 15th of each fiscal year, the Jurisdictions shall submit an Annual Expenditure Report to provide an update on previous year LR fund receipts and expenditures.”
Condition	The City did not meet the October 15, 2017 deadline for submission of Form C. The City submitted the final Form C to the LACMTA on November 15, 2017.
Cause	There was a transition period between the Interim Director of Administrative Services and the Acting Finance Manager, which caused the oversight.
Effect	The City’s Form C was not submitted timely, in accordance with the Guidelines.
Recommendation	We recommend that the City establish procedures to ensure that the Form C (Annual Expenditure Report) is properly prepared and submitted prior to the October 15th deadline and that the City retain a confirmation of receipt by LACMTA to comply with the Guidelines.
Management’s Response	The City had previously relied on consultants to submit required forms. As a result of the LACMTA audit findings, the City will now assign LACMTA forms to designated, in-house personnel to ensure submittal deadlines are met. Submittal deadlines will be tracked using a citywide shared calendar with alerts and reminders of upcoming submittals.

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(Continued)

PALRF Finding#2017-003	City of Artesia
Compliance Requirement	According to Proposition A and Proposition C Local Return Guidelines, Section II, 1.3, Recreational Transit Service: "Jurisdictions shall submit a Listing of Recreational Transit Services no later than October 15th after the fiscal year."
Condition	The City did not meet the October 15, 2017 deadline for submission of the Listing of Recreational Transit Services. However, the City subsequently submitted the listing on November 16, 2017.
Cause	There was a transition period between the Interim Director of Administrative Services and the Acting Finance Manager, which caused the oversight.
Effect	The City's Listing of Recreational Transit Services was not submitted timely.
Recommendation	We recommend that the City establish procedures to ensure that the Recreational Transit Services listing is properly prepared and submitted before the due date of October 15th so that the City's expenditures of the Proposition A Local Return Fund will be in accordance with LACMTA's approval and the guidelines. Furthermore, we recommend that the City retain a confirmation of receipt by LACMTA to indicate the form was submitted in a timely manner.
Management's Response	The City had previously relied on consultants to submit required forms. As a result of the LACMTA audit findings, the City will now assign LACMTA forms to designated, in-house personnel to ensure submittal deadlines are met. Submittal deadlines will be tracked using a citywide shared calendar with alerts and reminders of upcoming submittals.

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(Continued)

PALRF & PCLRF Finding#2017-004	City of Artesia
Compliance Requirement	According to Proposition A and Proposition C Local Return Guidelines, Section II A-15, "The administrative expenditures for any year shall not exceed 20 percent of total Local Return annual expenditures. The annual expenditure figure will be reduced by fund trades to other cities and/or funds set aside for reserves; conversely, the annual expenditure figure will be increased by expenditure of reserves of Local Return funds received in fund exchanges."
Condition	Proposition A General Program Administration exceeded the 20% administration cap by \$64,906 and Proposition C General Program Administration exceeded the 20% administration cap by \$19,193.
Cause	The Administrative Expense was calculated as a percentage of total planned LACMTA projects for the fiscal year. Since a portion of planned expenditures did not occurred during the fiscal period, administrative expenses exceeded 20% of actual expenditures.
Effect	The City's Proposition A and Proposition C Local Return Fund administrative expenditures exceeded 20% of the Proposition A and Propositions C Local Return annual expenditures. Therefore, the City did not comply with the Guidelines, resulting in questioned costs of \$64,906 and \$19,193, respectively.
Recommendation	We recommend that the City reimburse its Proposition A Local Return Fund and Proposition C Local Return Fund accounts by \$64,906 and \$19,193, respectively. Furthermore, we recommend the City establish procedures to ensure that the administrative expenditures are within the twenty percent cap of the Proposition A and Proposition C Local Return Fund's total annual expenditures.
Management's Response	The new method of tracking direct payroll expenses allows the City to monitor LACMTA payroll expenses, and stay within the 20% Administration Cap as directed in the LACMTA guidelines.

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 (Continued)**

<p>PALRF & PCLRF Finding#2017-005</p>	<p>City of Artesia</p>
<p>Compliance Requirement</p>	<p>According to Proposition A and Proposition C Local Return Guidelines, Section II, “A proposed expenditure of funds shall be deemed to be for public transit purposes to the extent that it can reasonably be expected to sustain or improve the quality and safety of and/or access to public transit services by the general public or those requiring special public transit assistance” and Section V, “It is jurisdictions’ responsibility to maintain proper accounting records and documentation...”</p> <p>In addition, LACMTA Local Return Program Manager issued a memo dated on April 29, 2014 to jurisdictions to provide recommendations to ensure that jurisdictions have adequate evidence to support its compliance with the Local Return Guidelines, those recommendations are “that an electronic system is acceptable as long as how much time is identified on the project (i.e. not just a clock-in-clock-out system) and this non-timesheet system, excel file or other, is authenticated by the employee and approved by one’s supervisor.” Also, “(4) Where employees work on multiple activities or cost objectives, a distribution or their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:</p> <p style="padding-left: 40px;">(b) A Federal award and non-Federal award.</p> <p>(5) Personnel activity reports or equivalent documentation must meet the following standards:</p> <p style="padding-left: 40px;">(b) They must reflect an after the fact distribution of the actual activity of each employee,</p> <p style="padding-left: 40px;">(f) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:</p> <p style="padding-left: 80px;">(i) the governmental unit’s system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) at least quarterly, comparisons of actual costs to budgeted distributions based on monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) the budget estimates or other distribution percentages are revised as least quarterly, if necessary, to reflect changed circumstances.”</p>

Los Angeles County Metropolitan Transportation Authority
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Fiscal Year Ended June 30, 2017
(Continued)

PALRF & PCLRF Finding#2017-005 (Continued)	City of Artesia
Condition	To support the propriety of expenditures being charged to Proposition A and C Local Return Funds, all expenditures should be supported by properly executed payrolls, time records, activity reports, vouchers, purchase orders, or other official documentation evidencing in proper detail the nature of the charges. However, the total payroll expenditures of \$50,578 for Proposition A General Program Administration, \$34,425 for the Prop A Vehicle Project and \$47,348 for Proposition C General Program Administration were based on an estimate of a percentage of time spent on Proposition A & C activity rather than employee's actual working hours spent for the Proposition A and Proposition C projects. The City provided us with the payroll registers and the timesheets along with support for wages paid to employees; however, these documents did not adequately support the actual hours or payroll expenditures charged to the projects.
Cause	Payroll expenses were allocated as a set percentage based on a study of hours dedicated to LACMTA projects in previous years.
Effect	The payroll costs claimed under the Proposition A & C Local Return Funds projects may include expenditures which may not be an allowable Proposition A project expenditures or Proposition C project expenditures, resulting in questioned costs of \$85,003 and \$47,348, respectively.
Recommendation	In accordance with the Guidelines, we recommend that the City reimburse its Proposition A Local Return Fund and Proposition C Local Return Fund accounts for \$85,003 and \$47,348, respectively. In addition, we recommend that the City revise its current labor costs reporting procedures to ensure that labor costs charged to Local Return Funds are adequately supported by time sheets or similar documentation which includes employees' actual working hours.
Management's Response	In order to comply with the direct allocation requirement, set forth by LACMTA Guidelines, the new Finance Manager has stopped past practice of payroll allocation and has developed a new method to track payroll expenses related to LACMTA projects. The City will now keep additional time logs for employees that work towards the goals of efficient and effective transportation of LACMTA projects. The additional time card will include the project title, name of the employee, hours worked on project per pay period, and current bill rate. This will allow for a clearer presentation of employees' time spent on LACMTA projects.

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 Fiscal Year Ended June 30, 2017
 (Continued)**

PALRF & PCLRF Finding#2017-006	City of Artesia
Compliance Requirement	According to Proposition A and Proposition C Local Return Guidelines, Section II, “A proposed expenditure of funds shall be deemed to be for public transit purposes to the extent that it can reasonably be expected to sustain or improve the quality and safety of and/or access to public transit services by the general public or those requiring special public transit assistance” and Section V, “It is jurisdictions’ responsibility to maintain proper accounting records and documentation...”
Condition	<p>To support the propriety of expenditures being charged to Proposition A and C Local Return Funds, non-payroll expenditures should be supported by properly executed contracts, purchase orders, invoices, and cancelled checks. Although payments to vendors were allowable and were properly supported by invoices and cancelled checks, the following expenditures were not supported by an existing contract or purchase order:</p> <p>For Prop A, a total of \$42,652 was selected for non-payroll testing. Out of the 12 non-payroll samples selected for testing, the City did not provide a contract or a purchase order for 3 samples for the same vendor (Johnny’s Express) in the total amounts of \$3,385.</p> <p>For Prop C, \$63,309 was selected for non-payroll testing. Out of the 46 non-payroll samples selected for testing, the City did not provide contracts or purchase orders for 30 samples (6 various vendors) in the total amounts of \$45,395.</p>
Cause	Transitional staff in Accounts Payable and City Clerk offices caused the details of vendor contracts, such as Scope of Work, to be overlooked.
Effect	No contract or purchase order form to support the payments made to vendors indicate a weakness in the City’s internal control.
Recommendation	We recommend that the City establish controls to ensure that the costs charged to the Local Return Funds, although allowable, are adequately supported by contracts, invoices, cancelled checks or similar documentation so that Local Return expenditures are in compliance with the Guidelines.
Management’s Response	The City agrees with the audit results. Internal controls have been reviewed, and changes have been made to include a more disciplined review process which ensures compliance even through periods of staff transitions.

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(Continued)**

PALRF Finding#2017-007	City of Bradbury
Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, IV. Finance Section: E – Timely Use of Funds, “Jurisdictions have three years to expend LR funds. Funds must be expended within three years of the last day of the fiscal year in which funds were originally allocated. Therefore, by method of calculation, each Jurisdiction has the Fiscal Year of allocation plus three years to expend Proposition A and/or Proposition C funds.”
Condition	A portion of the City’s fiscal year 2014 ending fund balance in the amount of \$3,448 was not fully expended within 3 years as of June 30, 2017 and it was not reserved for capital projects as required by Local Return guidelines. However, on November 16, 2017, LACMTA granted the City an extension on the usage of lapsed funds until June 30, 2018.
Cause	There was a lack of timely review of the available funding to be spent for Prop A. In addition, the City noted that it did not have many eligible uses for the Prop A funding during the year.
Effect	Untimely review of the funding status from the prior year allocation could result in losing the funding.
Recommendation	In order to avoid future lapsed funds, we recommend the City establish a policy and process where the City Manager and Finance Director discuss the availability of the Local Return funds in conjunction with any eligible PALRF projects and submit Form B (Annual Project Update Form) to LACMTA, if needed.
Management’s Response	The City does not have eligible uses for Prop A funds so ends up selling its funds to other cities. The finance director will calendar the sale of Prop A funds so no funds lapse.
Finding Corrected During the Audit	On November 16, 2017, LACMTA subsequently approved an extension on the usage of lapsed funds until June 30, 2018.

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(Continued)**

PCLRF Finding #2017-008	City of Bradbury
Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, Section I (C), Project Description Form (Form A), Item 5: "Jurisdictions shall submit for approval a Project Description Form prior to the expenditure of funds for: a 25 percent or greater change in an approved Local Return project budget or scope on all operating or capital Local Return projects".
Condition	The City exceeded more than 25 percent of LACMTA's approved budget on PCLRF Project Code 480-03, San Gabriel Valley COG Dues. The amount that exceeded the approved budget by more than 25% is \$77. However, at the time of the audit, the City submitted an amended Form A (Project Description Form) to LACMTA to revise the budget to include the increase for this project.
Cause	This was an oversight on the part of the City's management.
Effect	The City's PCLRF project expenditures exceeded 25 percent of LACMTA's approved budget without LACMTA's approval. The City did not comply with the Guidelines.
Recommendation	We recommend that the City establish procedures to ensure that project expenditures are within the 25 percent cap of the LACMTA's approved budget and an amended Form A (Project Description Form) is properly prepared and submitted prior to the expenditure of funds which would result in a 25 percent or greater change in an approved Local Return project budget or scope on all operating or capital Local Return projects.
Management's Response	The City saw an unexpected increase in COG funds for the subject year. Staff has increased the budget for this item on Form A for both the 2017 and 2018 fiscal years.

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PALRF & PCLRF Finding #2017-009	City of Bradbury
Compliance Requirement	According to Proposition A and Proposition C Local Return Guidelines, Section C, "Jurisdictions shall submit on or before August 1 of each fiscal year an Annual Project Update to provide current information on all approved on-going and carryover LR projects".
Condition	The City did not meet the August 1, 2016 deadline for submission of the Annual Project Update (Form B). However, the City submitted the Form B on August 10, 2016.
Cause	This was due to an oversight on the part of the City's management.
Effect	The City's Form B was not submitted timely.
Recommendation	We recommend the City establish procedures to ensure that the Form B (Annual Project Update) is properly prepared and submitted before the due date of August 1st so that the City's expenditures of the Proposition A and C Local Return Funds will be in accordance with LACMTA's approval and the Guidelines. Furthermore, we recommend the City to retain a confirmation of receipt by LACMTA to indicate the form was submitted in a timely manner.
Management's Response	The finance director has calendared this item to ensure timely submission in the future.

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PCLRF Finding #2017-010	City of Covina
Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, IV. Finance Section: E – Timely Use of Funds, “Jurisdictions have three years to expend LR funds. Funds must be expended within three years of the last day of the fiscal year in which funds were originally allocated. Therefore, by method of calculation, each Jurisdiction has the Fiscal Year of allocation plus three years to expend Proposition A and/or Proposition C funds.”
Condition	A portion of the City’s fiscal year 2014 ending fund balance in the amount of \$38,028 was not fully expended within 3 years as of June 30, 2017 and was not reserved for capital projects as required by Local Return guidelines. However, the City received a subsequent approval from LACMTA on November 21, 2017 to expend the lapsed funds until June 30, 2018.
Cause	The City is working with the Los Angeles County (LAC) and the California Department of Transportation (CalTrans) on a major project, Grand Avenue Rehabilitation, for which Proposition C Local Return funds were budgeted. The project required a Joint User Agreement between the City and LAC. The approval process delayed the start of the implementation of the project and the timely expenditure of the funds.
Effect	The Proposition C Local Return funds were not expended or reserved within the Timely Use period resulting in questioned costs of \$38,028.
Recommendation	We recommend that the City establish a policy in place where the City Manager, City Engineer and Finance Department discuss the availability of Proposition C Local Return funds in conjunction with any eligible PCLRF projects and submit its Form B (Annual Project Update Form) on time. Alternative measure would include requesting a Capital Reserve Agreement with LACMTA.
Management’s Response	The City submitted on November 20, 2017 a request for an extension to expend the lapsed funds until June 30, 2018, which LACMTA approved on November 21, 2017. Currently, the City has already expended the lapsed Proposition C funds. In the future, the City management will monitor more closely to ensure compliance on the timely use of funds.
Finding Corrected During the Audit	On November 21, 2017, LACMTA subsequently approved an extension on the usage of lapsed funds until June 30, 2018.

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PALRF Finding #2017-011	City of Covina
Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, Section I (C), Project Description Form (Form A), Item 5: "Jurisdictions shall submit for approval a Project Description Form prior to the expenditure of funds for a 25 percent or greater change in an approved Local Return project budget or scope on all operating or capital Local Return projects."
Condition	The City expended more than 25 percent of LACMTA's approved budget on PALRF Project Code 370-02, Reimbursement of Construction Costs to Covina Redevelopment Agency, in the amount of \$3,447. However, the City filed the Form A to obtain retroactive approval on the budget amendment for the project from LACMTA. The Form A was subsequently approved on September 20, 2017.
Cause	Staff vacancies and changes in the Public Works Department caused difficulty in the City's timely submission of Form A to LACMTA. As a result, the City exceeded the budget by more than 25 percent for Project Code 370-02, Reimbursement of Construction Costs to Covina Redevelopment Agency.
Effect	The City's PALRF project expenditures exceeded 25 percent of LACMTA's approved budget without LACMTA's approval and the City did not comply with the Guidelines.
Recommendation	We recommend that the City establish procedures to ensure that project expenditures are within the 25 percent cap of the LACMTA's approved budget and an amended Form A is properly prepared and submitted prior to the expenditure of funds which would result in a 25 percent or greater change in an approved Local Return project budget or scope on all operating or capital Local Return projects.
Management's Response	A full-time staff member has been hired by the Public Works Department to track the timely submission of forms. In addition, quarterly meetings between the Finance Department and Public Works Department have been scheduled to closely monitor the expenditures and obtain the required approvals from LACMTA prior to incurring expenditures.
Finding Corrected During the Audit	The City filed Form A to obtain retroactive approval on the budget amendment for the project and was subsequently approved on September 20, 2017. No follow up is required.

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 Fiscal Year Ended June 30, 2017
 (Continued)**

<p>PALRF & PCLRF Finding #2017-012</p>	<p>City of Downey</p>
<p>Compliance Reference</p>	<p>According to Proposition A and Proposition C Local Return Guidelines, Section II, “A proposed expenditure of funds shall be deemed to be for public transit purposes to the extent that it can reasonably be expected to sustain or improve the quality and safety of and/or access to public transit services by the general public or those requiring special public transit assistance” and Section V, “It is jurisdictions’ responsibility to maintain proper accounting records and documentation...”</p> <p>In addition, LACMTA Local Return Program Manager issued a memo dated on April 29, 2014 to jurisdictions to provide recommendations to ensure that jurisdictions have adequate evidence to support its compliance with the Local Return Guidelines, those recommendations are “that an electronic system is acceptable as long as how much time is identified on the project (i.e. not just a clock-in-clock-out system) and this non-timesheet system, excel file or other, is authenticated by the employee and approved by one’s supervisor.” Also, “(4) Where employees work on multiple activities or cost objectives, a distribution or their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:</p> <p style="padding-left: 40px;">(b) A Federal award and non-Federal award.</p> <p>(5) Personnel activity reports or equivalent documentation must meet the following standards:</p> <p style="padding-left: 40px;">(b) They must reflect an after the fact distribution of the actual activity of each employee,</p> <p style="padding-left: 40px;">(f) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that: (i) the governmental unit’s system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) at least quarterly, comparisons of actual costs to budgeted distributions based on monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) the budget estimates or other distribution percentages are revised as least quarterly, if necessary, to reflect changed circumstances.”</p>

**Los Angeles County Metropolitan Transportation Authority
 Proposition A and Proposition C Local Return Funds
 Schedule of Findings and Questioned Costs
 Fiscal Year Ended June 30, 2017
 (Continued)**

PALRF & PCLRF Finding #2017-012 (Continued)	City of Downey
Condition	<p>To support the propriety of expenditures being charged to Proposition A and C Local Return Funds, payroll expenditures should be supported by properly executed payrolls, time records, activity reports, vouchers, or other official documentation evidencing in proper detail the nature of the charges. However, the salaries and benefits charged were based on an estimate of a percentage of time spent on PALRF and PCLRF activities rather than the employee’s actual working hours spent on the projects. Although the City provided a time study listing the employees charged to PALRF and PCLRF, the payroll costs and benefits were based on estimated percentages of the time spent on the projects. Moreover, the hours were not adjusted to reflect the “true” hours worked on the projects at the end of the fiscal year 2016-17.</p> <ul style="list-style-type: none"> (a) PALRF’s Senior/Handicapped Transit Program Project Code 130-02, in the amount of \$137,000. (b) PALRF’s Fixed Route Program Project Code 110-13, in the amount of \$23,466. (c) PCLRF’s Ride Sharing Program Administration Project Code 480-02, in the amount of \$13,560. (d) PCLRF’s Local Return Fund Administration (Public Works) Project Code 480-28, in the amount of \$26,123. <p>This is a repeat finding from the prior fiscal year.</p>
Cause	<p>The allocated administrative charges were based on a time study performed by the City in fiscal year ended 2011-12. The same percentage allocations have been used in prior fiscal years and in fiscal year 2016-17.</p>
Effect	<p>The payroll costs claimed under the Proposition A and C Local Return Fund projects may include expenditures which may not be allowable Proposition A and C project expenditures. This resulted in questioned costs of \$160,466 and \$39,683 for PALRF and PCLRF, respectively.</p>
Recommendation	<p>In accordance with the Guidelines, we recommend that the City reimburse its Proposition A and C Local Return Fund accounts for \$160,466 and \$39,683, respectively. In addition, we recommend that the City revise its current labor costs reporting procedures to ensure that labor costs charged to Local Return Funds are adequately supported by time sheets or similar documentation which includes employees’ actual working hours.</p>

Los Angeles County Metropolitan Transportation Authority
Proposition A and Proposition C Local Return Funds
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(Continued)

PALRF & PCLRF Finding #2017-012 (Continued)	City of Downey
Management's Response	<p>The City management agrees that the amounts were based on a time study performed in fiscal year 2011-12. However, the City believes that the amounts charged to all City funds (Enterprise, Special Revenue, Successor Agency) for the administration of the PALRF and PCLRF projects to be relevant today as when the study was completed. The City has limited resources in which to conduct a time study on an annual basis. An updated schedule was prepared using fiscal year 2016-17 figures and the result is still within the allocation cost stated in the previous study. The City has recently completed a cost allocation study in which has been shared with LACMTA and is still under review by management.</p>

**Los Angeles County Metropolitan Transportation Authority
Proposition A and Proposition C Local Return Funds
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Fiscal Year Ended June 30, 2017
(Continued)**

PALRF Finding #2017-013	City of Downey
Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, Section II, "A proposed expenditure of funds shall be deemed to be for public transit purposes to the extent that it can reasonably be expected to sustain or improve the quality and safety of and/or access to public transit services by the general public or those requiring special public transit assistance" and Section V, "It is jurisdictions' responsibility to maintain proper accounting records and documentation..."
Condition	To support the propriety of expenditures being charged to the Proposition A and C Local Return Funds, non-payroll expenditures should be supported by properly executed contracts, invoices, and vouchers. or other official documentation evidencing in proper detail the nature of the charges. However, payments for equipment rental in the amount of \$155,000 were charged to PALRF's Senior/Handicapped Transit Program, Project Code 130-02, without appropriate supporting documentation, i.e., invoices, purchase orders, contracts, etc., to validate the disbursements.
Cause	The allocated equipment rental charges of \$155,000 were based on a time study performed by the City in fiscal year ended 2011-12. The same percentage allocations have been used in prior fiscal years and in fiscal year 2016-17.
Effect	The unsupported expenditures on the equipment rental resulted in questioned costs of \$155,000.
Recommendation	In accordance with the Guidelines, we recommend that the City reimburse its Proposition A Local Return Account for \$155,000. In addition, we recommend that the City establish controls to ensure that the costs charged to the Local Return funds are adequately supported by contracts, invoices, canceled checks or similar documentation so that Local Return expenditures are in compliance with the Guidelines.
Management's Response	The City management agrees that the amounts were based on a time study performed in fiscal year 2011-12. However, the City believes that the amounts charged to all City funds (Enterprise, Special Revenue, Successor Agency) for the equipment maintenance of the PALRF and PCLRF projects to be relevant today as when the study was completed. The City has limited resources in which to conduct a time study on an annual basis. An updated schedule was prepared using fiscal year 2016-17 figures and the result is still within the allocation cost stated in the previous study. The City has recently completed a cost allocation study in which has been shared with LACMTA and is still under review by management.

**Los Angeles County Metropolitan Transportation Authority
Proposition A and Proposition C Local Return Funds
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Fiscal Year Ended June 30, 2017
(Continued)**

PCLRF Finding #2017-014	City of Duarte
Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, Section I (B.3), "If Local Return Funds have been expended prior to LACMTA approval and/or used for ineligible purposes, Jurisdictions will be required to reimburse their Proposition C Local Return account..."
Condition	The City incurred expenditures prior to receiving approval from LACMTA for PCLRF's Project Code 480-04 Direct Administration in the amount of \$10,000. However, the project was subsequently approved on September 18, 2017.
Cause	The City mistakenly included the budget for PCLRF's administrative cost of \$10,000 with PCLRF's Fixed Route Bus System Project Code 110-01's budget of \$362,800 in which the City properly received approval from LACMTA.
Effect	The City did not comply with the Guidelines when expenditures for PCLRF project are incurred without LACMTA's approval.
Recommendation	We recommend that the City establish procedures to ensure that it obtains approval from LACMTA prior to implementing any Proposition A and Proposition C Local Return projects. Form B (Annual Project Summary Report) should be properly prepared and submitted before the due date of August 1st so that the City's expenditures of Proposition A and Proposition C Local Return Funds are in accordance with LACMTA's approval and the Guidelines. In accordance with the Guidelines, the City should include all approved on-going and carryover Local Return projects in Form B.
Management's Response	In the future, the City will ensure that the LACMTA's approval for administrative cost will be requested as a separate project. Also, the City's staff will review and make necessary adjustments on PCLRF or PALRF approval requests to receive appropriate authorization from LACMTA before fiscal year end and to be in compliance with the Guidelines.
Finding Corrected During the Audit	LACMTA Program Manager granted retroactive approval of the said expenditures on September 18, 2017.

**Los Angeles County Metropolitan Transportation Authority
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 Fiscal Year Ended June 30, 2017
 (Continued)**

<p>PALRF and PCLRF Finding #2017-015</p>	<p>City of Duarte</p>
<p>Compliance Reference</p>	<p>According to Proposition A and Proposition C Local Return Guidelines, Section II, “A proposed expenditure of funds shall be deemed to be for public transit purposes to the extent that it can reasonably be expected to sustain or improve the quality and safety of and/or access to public transit services by the general public or those requiring special public transit assistance” and Section V, “It is jurisdictions’ responsibility to maintain proper accounting records and documentation...”</p> <p>The City’s Finance Manual Section 2.36.050(m), Exemptions from Purchasing Requirements, states “Where the City Council finds that the purchasing requirements are unreasonably difficult or expensive to use, or are not suitable for the item(s) being procured.”</p>
<p>Condition</p>	<p>To support the propriety of expenditures being charged to the Proposition A and C Local Return Funds, non-payroll expenditures should be supported by properly executed contracts, invoices, and vouchers. Although payments to vendors were allowable and were properly supported by invoices and cancelled checks, the following expenditures for Project Code 110-01, Fixed Route Bus System were not supported by an existing contract or purchase order form for the following vendors:</p> <ul style="list-style-type: none"> a) Two (2) payments made to La Mobo Bus Service, Inc., in the total amount of \$17,901; b) A payment made to Canyon Tire Sales, Inc., in the amount of \$2,554. c) A payment made to Cummins Pacific LLC, in the amount of \$886. <p>According to the City, these are payments made to the equally qualified vendors for when buses break down and needed urgent repairs and replacement of parts to ensure that the buses are back in service quickly.</p> <p>However, there was no indication on the supporting documentations that provide evidence that the repairs were within the definition of Section 2.36.050(m) of the City’s Finance Manual.</p>
<p>Cause</p>	<p>The City utilized several different vendors to repair the buses. Decisions were made based on what repairs are needed, which vendors are capable and what is the turnaround time to get the buses back into service. These repairs were frequent but generally under \$2,000 each. This was below the City requirement to utilize a purchase order even if the City was not relying on Section 2.36.050(m) to increase the effectiveness of staff by avoiding the use of Purchase Orders for each and every invoice. As the buses age, maintenance costs are increasing to a point where additional categorization of repairs would assist in monitoring spending.</p>

**Los Angeles County Metropolitan Transportation Authority
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 (Continued)**

PALRF and PCLRF Finding #2017-015 (Continue)	City of Duarte
Effect	Since the voucher package and other supporting documentation for these payments do not indicate that these are repairs that require immediate action or attention, we were unable to determine that the services provided by these vendors were exempted from the purchasing requirements stated under Section 2.36.050(m).
Recommendation	We recommend the City provide additional supporting documentation in the voucher package to clearly state that the repairs are urgent as defined under Section 2.36.050(m) of the City’s Finance Manual. Such documentation should include evidence attesting to the immediate repair needs and the proper approval as required by the City’s Finance Manual and in compliance with the Local Return Guidelines.
Management’s Response	The City recognizes the importance of this matter. Purchases made from these vendors are not suitable for ‘bundling’ or bidding. However, over the course of the year, the dollars spent with these vendors are substantial. The City proposes to issue blanket Purchase Orders to appropriate vendors for “Preventative Maintenance” and for “Urgent Repairs”. As the buses needed more attention, the costs will be directed to the appropriate Purchase Order for payment.

**Los Angeles County Metropolitan Transportation Authority
Proposition A and Proposition C Local Return Funds
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Fiscal Year Ended June 30, 2017
(Continued)**

PALRF & PCLRF Finding #2017-016	City of Glendora
Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, Section I (B3), "If Local Return Funds have been expended prior to LACMTA approval and/or used for ineligible purposes, Jurisdictions will be required to reimburse their Proposition A and Proposition C Local Return account..."
Condition	The City incurred expenditures prior to receiving approval from LACMTA for PALRF's Dial-A-Ride Program Vehicle Purchase Project Code 200-13, PCLRF's Grand Avenue Rehabilitation Project Code 440-16 and Upgrade Traffic Signal Controllers Project Code 440-23 in the amounts of \$63,190, \$242,980 and \$78,598, respectively. However, LACMTA granted a retroactive approval of the expenditures on October 11, 2017.
Cause	The PALRF's Dial-A-Ride Program Vehicle Purchase and PCLRF's Grand Avenue Rehabilitation were carryover projects that were approved in fiscal year ended 2015-16 but were not carried to completion until the following fiscal year. The City mistakenly did not submit a request for budget approval from LACMTA in fiscal year ended 2016-17. Also, the City was not able to submit budget approval for PCLRF's Upgrade Traffic Signal Controllers due to an oversight.
Effect	The City did not comply with the Guidelines when expenditures for PALRF and PCLRF projects were incurred prior to LACMTA's approval.
Recommendation	We recommend that the City establish procedures to ensure that it obtains approval from LACMTA prior to implementing any Proposition A and Proposition C Local Return projects. Form B (Annual Project Summary Report) should be properly prepared so that the City's expenditures of Proposition A and Proposition C Local Return Funds are in accordance with LACMTA's approval and the Guidelines. In accordance with the Guidelines, the City should include all approved on-going and carryover Local Return projects in Form B.
Management's Response	The City will modify existing procedures and strengthen controls to ensure that approval is obtained from LACMTA prior to implementing PALRF and PCLRF funded projects.
Finding Corrected During Audit	LACMTA Program Manager granted retroactive approval of the expenditures on October 11, 2017.

Los Angeles County Metropolitan Transportation Authority
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Fiscal Year Ended June 30, 2017
(Continued)

PCLRF Finding #2017-017	City of Hawaiian Gardens
Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, Section I (B.3), "If Local Return Funds have been expended prior to LACMTA approval and/or used for ineligible purposes, Jurisdictions will be required to reimburse their Proposition C Local Return account..." To maintain eligibility and meet LR Program compliance requirements, the Guidelines also state under Section I (C), Project Description Form (Form A), Item 1: "Jurisdictions shall submit for approval a Project Description Form prior to the expenditure of funds for a new project."
Condition	The City incurred PCLRF expenditures prior to receiving approval from LACMTA for Project Code 270-01, Corridor Study and COG Dues for Transportation Studies, in the amount of \$26,500. However, Form A was subsequently approved on October 13, 2017.
Cause	The City mistakenly included the budget for the PCLRF's Project Code 270-01, Corridor Study and COG Dues for Transportation Studies, with the Project Code 480-03, Transportation Administration, instead of reporting it as a separate planning project. Due to the lack of staff and training on the reporting requirements of the Local Return funds, the City did not properly review that the projects requested are complete prior to submission to LACMTA.
Effect	The City did not comply with the Guidelines when expenditures for PCLRF project are incurred prior to LACMTA's approval.
Recommendation	We recommend that the City establish procedures to ensure that it obtains approval from LACMTA prior to implementing any new Proposition C Local Return projects. Form A should be properly prepared and timely submitted anytime during the year so that the City's PCLRF expenditures are in accordance with LACMTA's approval and Guidelines.
Management Response	The City hired a staff who will be responsible for the preparation of the LACMTA projects and their appropriate budgets. The report will be reviewed by the Finance Director to ensure costs are not incurred prior to LACMTA's approval. Furthermore, staff training will be conducted, as deemed necessary, to ensure compliance on the Local Return Guidelines.
Finding Corrected During Audit	The City filed Form A and was subsequently approved on October 13, 2017 by LACMTA Program Manager.

**Los Angeles County Metropolitan Transportation Authority
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(Continued)**

PALRF Finding #2017-018	City of Hermosa Beach
Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, IV. Finance Section: E – Timely Use of Funds, “Jurisdictions have three years to expend LR funds. Funds must be expended within three years of the last day of the fiscal year in which funds were originally allocated. Therefore, by method of calculation, each Jurisdiction has the Fiscal Year of allocation plus three years to expend Proposition A and/or Proposition C funds.”
Condition	During fiscal year 2017, the City did not incur enough expenditures to fully deplete the remaining funds included in the City’s beginning fund balance from fiscal year 2013-14 Local Return allocation. As such, the remaining balance of \$16,951 for the fiscal year 2013-14 allocation was subject to lapse as of June 30, 2017. However, on November 22, 2017, LACMTA granted the City an extension on the usage of lapsed funds until June 30, 2018.
Cause	The funds were not expended within the 3-year time frame as required by the Guidelines.
Effect	The City is still holding funds that are required to be submitted back to LACMTA for reallocation.
Recommendation	We recommend that the City develop internal control procedures to track the composition of the fund balance based on each fiscal year’s allocation and spending to ensure all funds are spent within the required 3-year time frame to avoid future lapse of funds. We also recommend that the City return the \$16,951 of lapsed funds to LACMTA.
Management’s Response	The City acknowledges that the necessary expenditures were not incurred nor encumbered by June 30, 2017, due to several projects being under budget. The PCH/Aviation Beautification Project is on hold and the Recreation Transportation Project had fewer trips outside of LA County as compared to previous years. The timely use of funds has been discussed with project managers and expenditures for all projects as a whole will be reviewed more closely throughout the year to ensure that funds are redirected with LACMTA approval to avoid lapse.
Finding Corrected During the Audit	The City obtained an extension on their lapsed funds on November 22, 2017. The funds must be expended by June 30, 2018.

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(Continued)**

PALRF and PCLRF Finding #2017-019	City of La Cañada Flintridge
Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, Section II, "A proposed expenditure of funds shall be deemed to be for public transit purposes to the extent that it can reasonably be expected to sustain or improve the quality and safety of and/or access to public transit services by the general public or those requiring special public transit assistance" and Section V, "It is jurisdictions' responsibility to maintain proper accounting records and documentation..."
Condition	To support the propriety of expenditures being charged to the Proposition A Local Return Fund, non-payroll expenditures should be supported by properly executed contracts, invoices, and vouchers. Although payments to vendors were properly supported by invoices and cancelled checks, the payments to City of Glendale in the total amount of \$219,097 and \$146,065, under PALRF and PCLRF, respectively, were based on an expired contract agreement and were charged to the respective LCF Shuttle (Route 3) Project Code 110-03. No amendments were issued since Amendment No. 9 dated September 23, 1999 in which the term of the extension ended on January 31, 2000. This is a repeat finding from the prior fiscal year.
Cause	The City believed that the current agreement was still effective via mutual extension by the City of La Cañada Flintridge and City of Glendale.
Effect	No documentation to support that both Cities agree to extend the terms of the agreement indicates a weakness in the City's internal control.
Recommendation	We recommend that the City update the contract annually and issue an extension or amendment to provide proper documentation that both parties, Cities of La Cañada Flintridge and Glendale, mutually agree to the terms and conditions of the contract, including but not limited to, level of service, type of service, and rates.
Management's Response	The last contract amendment allowed for the City of Glendale and the City of La Cañada Flintridge to extend the agreement for additional years if it was mutually agreed to do so between the two parties (provided under the Terms of the Agreement). Annually, the Cities have consulted on rates to prepare for the budget process, satisfying the ability to extend the contract as stated. Currently, the City is working on drafting a new agreement for Fixed Route Transit Service with the City of Glendale.

**Los Angeles County Metropolitan Transportation Authority
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(Continued)**

PALRF Finding #2017-020	City of La Habra Heights
Compliance Requirement	According to the Proposition A and Proposition C Local Return Guidelines, Section C, "Jurisdiction shall submit for approval a Project Description Form (Form A) prior to the expenditure of funds for 1) a new project; 2) a new route; 3) a 25 percent change (increase or decrease) in route or revenue vehicle miles for an established Local Return fund transit service; 4) a 0.75 miles or greater service change that duplicates/overlays an existing transit service; or 5) a 25 percent or greater change in an approved Local Return project budget or scope on all operating Local Return projects."
Condition	The City expended more than 25% of LACMTA's approved budget on PALRF Project Code 130-01, Dial-A-Ride, in the amount of \$7,248.
Cause	On June 28, 2017, the City submitted a Form A to LACMTA with the intention of increasing the budget from \$10,500 to \$17,000; however, when completing the Form, the City erroneously reduced the project budget from \$10,500 to \$6,500 (the amount they wanted to add to the budget); because of this error, total expenditures charged to the Dial-A-Ride project exceeded the 25 percent threshold.
Effect	The total expenditures charged to project code 130-01 Dial-A-Ride, exceeded the project budget by more than 25 percent.
Recommendation	We recommend that the City implement internal control procedures to review all Form submissions prior to submittal to LACMTA, to ensure that Forms are processed accurately.
Management's Response	The City agrees with the auditor's finding; the City submitted the Form A with amended budget amounts. LACMTA used the adjustment amount as the final budget instead of the amount to be increased/decreased. The City will comply with LACMTA on any additional forms or reports that need to be submitted.

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PCLRF Finding #2017-021	City of La Habra Heights
Compliance Reference	According to the Proposition A Proposition C Local Return Guidelines, Section C, "Jurisdiction shall submit for approval a Project Description Form (Form A) prior to the expenditure of funds for 1) a new project; 2) a new route; 3) a 25 percent change (increase or decrease) in route or revenue vehicle miles for an established Local Return fund transit service; 4) a 0.75 miles or greater service change that duplicates/overlays an existing transit service; or 5) a 25 percent or greater change in an approved Local Return project budget or scope on all operating Local Return projects."
Condition	During the fiscal year ended June 30, 2017, the City incurred \$55,997 of expenditures for project 440-05 Various Roads Overlay; however, the city only obtained an approved budget of \$1. The total amount expended for this local return project exceeded the approved budget.
Cause	On June 28, 2017, the City submitted a Form A to LACMTA with the intention of re-purposing the \$70,000 of approved budget for Various Roads Overlay; they intended to reduce this budget amount by \$14,000 and use the remaining \$56,000 for Guardrail Replacement; however, when completing the Form, the City erroneously reduced the project budget from \$70,000 to (\$14,000) (the amount they wanted to remove from the budget); because of this error, total expenditures charged to the Various Roads Overlay projects exceeded the 25 percent threshold.
Effect	The total expenditures charged to project code 440-05 Various Roads Overlay, exceeded the project budget by more than 25 percent.
Recommendation	We recommend that the City implement internal control procedures to review all Form submissions prior to submittal to LACMTA, to ensure that Forms are processed accurately.
Management Response	The City agrees with the auditor's finding; the City submitted the Form A with amended budget amounts. LACMTA used the adjustment amount as the final budget instead of the amount to be increased/decreased. The City will comply with LACMTA on any additional forms or reports that need to be submitted.

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PCLRF Finding #2017-022	City of La Mirada
Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, IV. Finance Section: E – Timely Use of Funds, “Jurisdictions have three years to expend LR funds. Funds must be expended within three years of the last day of the fiscal year in which funds were originally allocated. Therefore, by method of calculation, each Jurisdiction has the Fiscal Year of allocation plus three years to expend Proposition A and/or Proposition C funds.”
Condition	A portion of the City’s fiscal year 2013-14 ending fund balance in the amount of \$6,165 was not fully expended within 3 years as of June 30, 2017 and was not reserved for capital projects as required by Local Return guidelines. The City contacted LACMTA on November 16, 2017 to request the Proposition C Local Return funds to be placed on capital reserve and obtain LACMTA Board of Directors’ approval. The LACMTA Board meeting will be held in May 2018.
Cause	Due to an oversight, the City did not meet the timely use of PCLRFs in the amount of \$6,165.
Effect	The Proposition C Local Return funds were not expended or reserved within the Timely Use period resulting in questioned costs of \$6,165.
Recommendation	We recommend that the City return the lapsed Proposition C Local Return Funds of \$6,165 to LACMTA. In addition, we recommend that the City establish a policy in place where the City Manager, City Engineer and Finance Department discuss the availability of Proposition C Local Return funds in conjunction with any eligible PCLRF projects and submit its Form B (Annual Project Update Form) on time. Alternative measure would include requesting a Capital Reserve Agreement with LACMTA.
Management Response	The City will be submitting a Form A Capital Reserve Request to LACMTA to reserve \$6,165 Proposition C Local Return Funds by February 2018. The request will be presented to the LACMTA’s Board of Directors for approval in May 2018.

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PCLRF Finding #2017-023	City of La Verne
Compliance Reference	<p>According to Proposition A and Proposition C Local Return Guidelines, Section II, “A proposed expenditure of funds shall be deemed to be for public transit purposes to the extent that it can reasonably be expected to sustain or improve the quality and safety of and/or access to public transit services by the general public or those requiring special public transit assistance” and Section V, “It is jurisdictions’ responsibility to maintain proper accounting records and documentation...”</p> <p>The Purchasing Policy Section III (e), Contracts, of the City’s Accounting Policies and Procedures Manual states, “Change orders exceeding ten percent (10%) of the original award or formal bids and public projects must also be approved by the City Council.”</p>
Condition	The expenditures for PCLRF’s Project Code 440-01 Street Resurfacing in the total amount of \$339,432 was in excess of 10% of the original approved contract of \$284,304 by the amount of \$26,698. While a Change Order was prepared, there was no City Council approval authorizing the excess in accordance with the Purchasing Policy requirement. Although the City did not receive the City Council’s approval, the excess was determined to be allowable reasonable, and allocable expenditures for the PCLRF’s project.
Cause	The submittal of the Change Order for the City Council’s approval was overlooked by the City.
Effect	The costs claimed under the PCLRF project exceeding 10% of the original approved contract amount without the City Council’s authorization does not comply to the Purchasing policy of the City’s Accounting Policies and Procedures Manual.
Recommendation	We recommend that the City implement internal controls that will strictly enforce compliance with its Purchasing policy that any excess of 10% of the original approved contract amount receive proper approval from the City Council.
Management Response	The City has prepared a draft of the Council Agenda item for the Change Order which will be presented to the City Council for proper approval on December 18, 2017. In addition, the concerned City personnel were reminded of the Purchasing Policy requirements to ensure that all projects with change orders of 10% above the amount of bid price have the City Council’s authorization and approval.

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<p>PALRF and PCLRF Finding #2017-024</p>	<p>City of Lakewood</p>
<p>Compliance Reference</p>	<p>According to Proposition A and Proposition C Local Return Guidelines, Section II, “A proposed expenditure of funds shall be deemed to be for public transit purposes to the extent that it can reasonably be expected to sustain or improve the quality and safety of and/or access to public transit services by the general public or those requiring special public transit assistance” and Section V, “It is jurisdictions’ responsibility to maintain proper accounting records and documentation...”</p> <p>In addition, LACMTA Local Return Program Manager issued a memo dated on April 29, 2014 to jurisdictions to provide recommendations to ensure that jurisdictions have adequate evidence to support its compliance with the Local Return Guidelines, those recommendations are “that an electronic system is acceptable as long as how much time is identified on the project (i.e. not just a clock-in-clock-out system) and this non-timesheet system, excel file or other, is authenticated by the employee and approved by one’s supervisor.” Also, “(4) Where employees work on multiple activities or cost objectives, a distribution or their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:</p> <p style="padding-left: 40px;">(b) A Federal award and non-Federal award.</p> <p>(5) Personnel activity reports or equivalent documentation must meet the following standards:</p> <p style="padding-left: 40px;">(b) They must reflect an after the fact distribution of the actual activity of each employee,</p> <p style="padding-left: 40px;">(f) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that: (i) the governmental unit’s system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) at least quarterly, comparisons of actual costs to budgeted distributions based on monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) the budget estimates or other distribution percentages are revised as least quarterly, if necessary, to reflect changed circumstances.”</p>

Los Angeles County Metropolitan Transportation Authority
Proposition A and Proposition C Local Return Funds
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2017
(Continued)

PALRF and PCLRF Finding #2017-024 (Continued)	City of Lakewood
Condition	<p>To support the propriety of expenditures being charged to Proposition A and C Local Return Fund, payroll should be supported by properly executed payrolls, time records, activity reports, vouchers or other documentation evidencing in proper detail the nature of the charges. However, the salaries and benefits charged were based on distribution percentages determined before the services were performed on PALRF and PCLRF activities. Moreover, the hours were not adjusted to reflect the “true” hours worked on the projects at the end of the fiscal year 2016-17.</p> <p>(a) PALRF’s CATV Programming Project Code 280-30, in the amount of \$83,477.</p> <p>(b) PALRF’s Public Information Campaign Project Code 280-31, in the amount of \$17,958.</p> <p>(c) PALRF’s Direct Administration Project Code 480-01, in the amount of \$13,999.</p> <p>(d) PCLRF’s DASH Operations Project Code 130-02, in the amount of \$50,561.</p> <p>(e) PCLRF’s Direct Administration Project Code 480-04, in the amount of \$106,197.</p>
Cause	The City’s budget and allocation of payroll to LACMTA funds are based on prior year’s actual time spent working on LACMTA projects and programs.
Effect	The payroll costs claimed under the Proposition A and C Local Return Fund projects may include expenditures which may not be allowable Proposition A and C project expenditures. This resulted in questioned costs of \$115,434 and \$156,758 for PALRF and PCLRF, respectively.
Recommendation	In accordance with the Guidelines, we recommend that the City reimburse its Proposition A and C Local Return Fund accounts for \$115,434 and \$156,758, respectively. In addition, we recommend that the City revise its current labor costs reporting procedures to ensure that labor costs charged to Local Return Funds are adequately supported by time sheets or similar documentation which includes employees’ actual working hours.
Management’s Response	Beginning fiscal year ended 2017-18 and forward, the City is implementing the “true-up” process where the payroll amounts are based on prior year’s experience and at the end of each quarter, the Senior Accountant will process a “true-up” of the payroll based on actual hours worked on the respective PALRF and PCLRF projects.

**Los Angeles County Metropolitan Transportation Authority
 Proposition A and Proposition C Local Return Funds
 Schedule of Findings and Questioned Costs
 Fiscal Year Ended June 30, 2017
 (Continued)**

<p>PALRF Finding #2017-025</p>	<p>City of Lomita</p>
<p>Compliance Reference</p>	<p>According to Proposition A and Proposition C Local Return Guidelines, Section II, “A proposed expenditure of funds shall be deemed to be for public transit purposes to the extent that it can reasonably be expected to sustain or improve the quality and safety of and/or access to public transit services by the general public or those requiring special public transit assistance” and Section V, “It is jurisdictions’ responsibility to maintain proper accounting records and documentation...”</p> <p>In addition, LACMTA Local Return Program Manager issued a memo dated on April 29, 2014 to jurisdictions to provide recommendations to ensure that jurisdictions have adequate evidence to support its compliance with the Local Return Guidelines, those recommendations are “that an electronic system is acceptable as long as how much time is identified on the project (i.e. not just a clock-in-clock-out system) and this non-timesheet system, excel file or other, is authenticated by the employee and approved by one’s supervisor.” Also, “(4) Where employees work on multiple activities or cost objectives, a distribution or their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:</p> <p style="padding-left: 40px;">(b) A Federal award and non-Federal award.</p> <p>(5) Personnel activity reports or equivalent documentation must meet the following standards:</p> <p style="padding-left: 40px;">(b) They must reflect an after the fact distribution of the actual activity of each employee,</p> <p style="padding-left: 40px;">(f) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that: (i) the governmental unit’s system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) at least quarterly, comparisons of actual costs to budgeted distributions based on monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) the budget estimates or other distribution percentages are revised as least quarterly, if necessary, to reflect changed circumstances.”</p>

**Los Angeles County Metropolitan Transportation Authority
 Proposition A and Proposition C Local Return Funds
 Schedule of Findings and Questioned Costs
 Fiscal Year Ended June 30, 2017
 (Continued)**

PALRF Finding #2017-025 (Continue)	City of Lomita
Condition	To support the propriety of expenditures being charged to Proposition A Local Return Fund, payroll expenditures should be supported by properly executed payrolls, time records, activity reports, vouchers, or other official documentation evidencing in proper detail the nature of the charges. The City utilizes a third party for payroll processing; as such, payroll cost is charged to the fund during the year based on budget. The employees submit timesheets and labor distribution reports each period and an analysis is performed at year end to determine the necessary adjustment to bring the budgeted hours to actual. The City determined that the budgeted payroll cost charged to the Proposition A Local Return fund during fiscal year 2017, was less than the actual cost per the time cards and labor distribution reports; therefore, they did not make any adjustments to the budgeted amounts; however, the City could not provide us any support of the analysis performed.
Cause	The City was unaware that they needed to maintain documentation to support their analysis at year end, so no document was prepared and maintained.
Effect	The City did not provide supporting documentation of their analysis to determine that the budgeted payroll cost claimed under the Proposition A Local Return Fund was less than the actual activity (time and activity reports) for PALRF. However, during our testing of the sampled payroll cost charged during the fiscal year, we noted that time cards and labor distribution reports supported the client’s assertion that the budgeted time charged to the fund was less than the actual time incurred by the employees. As such, the finding resulted in no questioned cost.
Recommendation	In accordance with the Guidelines, we recommend that the City develop a procedure to document their analysis of budgeted cost charged to the Proposition A Local Return Fund during the fiscal year, in order to adjust budgeted hours to actual prior to the end of the fiscal year.
Management Response	Management will implement a process to document the analysis between the budgeted and actual costs. The City does a visual comparison after each pay period of actual costs to the time sheets to determine if any adjustment need to be made.

**Los Angeles County Metropolitan Transportation Authority
 Proposition A and Proposition C Local Return Funds
 Schedule of Findings and Questioned Costs
 Fiscal Year Ended June 30, 2017
 (Continued)**

<p>PCLRF Finding #2017-026</p>	<p>City of Norwalk</p>
<p>Compliance Reference</p>	<p>According to Proposition A and Proposition C Local Return Guidelines, Section II, “A proposed expenditure of funds shall be deemed to be for public transit purposes to the extent that it can reasonably be expected to sustain or improve the quality and safety of and/or access to public transit services by the general public or those requiring special public transit assistance” and Section V, “It is jurisdictions’ responsibility to maintain proper accounting records and documentation...”</p> <p>In addition, LACMTA Local Return Program Manager issued a memo dated on April 29, 2014 to jurisdictions to provide recommendations to ensure that jurisdictions have adequate evidence to support its compliance with the Local Return Guidelines, those recommendations are “that an electronic system is acceptable as long as how much time is identified on the project (i.e. not just a clock-in-clock-out system) and this non-timesheet system, excel file or other, is authenticated by the employee and approved by one’s supervisor.” Also, “(4) Where employees work on multiple activities or cost objectives, a distribution or their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:</p> <p style="padding-left: 40px;">(b) A Federal award and non-Federal award.</p> <p>(5) Personnel activity reports or equivalent documentation must meet the following standards:</p> <p style="padding-left: 40px;">(b) They must reflect an after the fact distribution of the actual activity of each employee,</p> <p style="padding-left: 40px;">(f) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that: (i) the governmental unit’s system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) at least quarterly, comparisons of actual costs to budgeted distributions based on monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) the budget estimates or other distribution percentages are revised as least quarterly, if necessary, to reflect changed circumstances.”</p>

**Los Angeles County Metropolitan Transportation Authority
 Proposition A and Proposition C Local Return Funds
 Schedule of Findings and Questioned Costs
 Fiscal Year Ended June 30, 2017
 (Continued)**

PCLRF Finding #2017-026 (Continued)	City of Norwalk
Condition	The salaries and benefits for one employee totaling \$454 under Project 310-08 Transportation Center Operation for the period ended March 11, 2017, was based on percentages determined by the City departments to be attributable to the LACMTA projects. However, the percentages utilized cannot be supported by timesheets or similar time and effort documentation to demonstrate that the salaries charged were expended on approved Proposition C Local Return projects.
Cause	The City received the same finding during FY 2015-16; as such, the City implemented internal control procedures to ensure that the salaries charged to approved Proposition C Local Return projects are properly supported. Internal Controls were implemented as of July 1, 2016 and operated effectively during all periods tested except for this one instance where the staff did not complete the timesheet in accordance with the new procedures implemented. As such, this was an isolated incident.
Effect	The City did not comply with LACMTA Guidelines. The payroll costs claimed under the Proposition C Local Return Funds projects may include expenditures which may not be an allowable Proposition C project, resulting in questioned cost of \$454.
Recommendation	As the City has modified its time sheet reporting format and implemented internal controls to ensure compliance with guidelines, we recommend that the City implement a monitoring and review process to ensure that the internal controls in place operate effectively to ensure proper reporting of salaries charged to approved Proposition C Local Return Projects.
Management Response	Management will ensure that all staff time charged to Proposition C Local Return Projects are supported by timesheets or similar documentation.
Finding Corrected During the Audit	The internal controls implemented at the start of fiscal year 2017 operated effectively in all periods tested except the instance noted. As such, no follow-up is necessary on this matter.

**Los Angeles County Metropolitan Transportation Authority
 Proposition A and Proposition C Local Return Funds
 Schedule of Findings and Questioned Costs
 Fiscal Year Ended June 30, 2017
 (Continued)**

PALRF Finding #2017-027	City of Palos Verdes Estates
Compliance Requirement	<p>According to Proposition A and Proposition C Local Return Guidelines, Section I (B3), “If Local Return Funds have been expended prior to LACMTA approval and/or used for ineligible purposes, Jurisdictions will be required to reimburse their Proposition A and Proposition C Local Return account...”</p> <p>According to Proposition A & C Local Return Guidelines, Section B (III), “Jurisdictions shall submit an Annual Project Update (Form B) to provide current information on all approved on-going and carryover Local Return projects. LACMTA will review and accept or return the report for changes. Cities shall report the anticipated expenditure cash flow amounts for the covered fiscal year”</p> <p>“Jurisdictions shall provide the following detail in submitting Fund Exchange projects for approval:</p> <ul style="list-style-type: none"> • Source of funds to be exchanged • Fund amounts to be exchanges • Periods of exchange • Certification by participating Jurisdictions (e.g. City Council Action)”
Condition	<p>During the fiscal year ended June 30, 2017, the City entered into a fund exchange agreement with the Palos Verdes Peninsula Transit Authority to exchange \$669,522 of Proposition A funds for \$502,142 General Fund or \$0.75 General Fund per \$1 PALFR Fund, prior to LACMTA approval. Per the Guidelines, all fund exchange agreements must be included on the Form B and approved by LACMTA prior to execution of the agreement. As the City did not obtain approval for the fund exchange agreement, they did not have approval to obligate these un-committed PALRF funds for exchange. However, on September 19, 2017, the City obtained subsequent approval for the fund exchange.</p>
Cause	<p>The City did not include this project on their Annual Project Update (Form B) as required by the guidelines.</p>
Effect	<p>Because the City did not include their intention to enter into a fund exchange on their Annual Project Update (Form B), the City did not comply with PALRF Guidelines.</p>
Recommendation	<p>We recommend that the City implement a process to ensure that all projects are properly included on the Annual Project Update (Form B) to obtain approval for all proposed expenditures and exchanges of funds, as per the PALRF Guidelines.</p>

**Los Angeles County Metropolitan Transportation Authority
 Proposition A and Proposition C Local Return Funds
 Schedule of Findings and Questioned Costs
 Fiscal Year Ended June 30, 2017
 (Continued)**

PALRF Finding #2017-027 (Continued)	City of Palos Verdes Estates
Management's Response	The City had discussed the exchange with the LACMTA, but did not obtain a formal approval. Management will ensure that proper approvals are obtained before exchanging Prop A monies with other agencies.
Findings Corrected during the Audit	On September 19, 2017, the City obtained subsequent approval for the fund exchange from the LACMTA program manager.

**Los Angeles County Metropolitan Transportation Authority
Proposition A and Proposition C Local Return Funds
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Fiscal Year Ended June 30, 2017
(Continued)**

PALRF Finding #2017-028	City of Palos Verdes Estates
Compliance Requirement	According to Proposition A and Proposition C Local Return Guidelines, Section I (B3), "If Local Return Funds have been expended prior to LACMTA approval and/or used for ineligible purposes, Jurisdictions will be required to reimburse their Proposition A and Proposition C Local Return account..."
Condition	During the fiscal year ended June 30, 2017, the City expended \$6,016 on Membership Dues for their participation in the Palos Verdes Transit Authority. However, the City did not include this on-going expenditure on its Annual Project Update (Form B) as required by the Guidelines prior to LACMTA approval. However, on September 19, 2017, the City obtained subsequent approval for the expenditures.
Cause	The City did not include this project on their Annual Project Update (Form B) as required by the Guidelines.
Effect	Because these expenditures were not properly included on the Annual Project Update (Form B), the expenditures incurred for this project during the fiscal year ended June, 30, 2017, were incurred prior to LACMTA approval.
Recommendation	We recommend that the City implement internal control procedures to ensure that all on-going project expenditures are properly included on the Annual Project Update (Form B) to obtain approval for all proposed expenditures, as per the PALRF Guidelines.
Management's Response	The City has consistently applied member dues as PALRF project cost but did not update Form B to include this project when the form was submitted to LACMTA. Management will ensure that updates for expenditures are included on the Form B to obtain approval on a timely basis.
Findings Corrected during the Audit	On December 15, 2017, the City obtained subsequent approval for the expenditures from the LACMTA program manager.

**Los Angeles County Metropolitan Transportation Authority
 Proposition A and Proposition C Local Return Funds
 Schedule of Findings and Questioned Costs
 Fiscal Year Ended June 30, 2017
 (Continued)**

PALRF Finding #2017-029	City of Redondo Beach
Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, Section II A-15, “The administrative expenditures for any year shall not exceed 20 percent of total Local Return annual expenditures. The annual expenditure figure will be reduced by fund trades to other cities and/or funds set aside for reserves; conversely, the annual expenditure figure will be increased by expenditure of reserves of Local Return funds received in fund exchanges.”
Condition	The City’s total administrative expenditures exceeded more than twenty percent of its total Proposition A Local Return Fund annual expenditures in the amount of \$86,523. The amount of \$86,523 represents the excess over twenty percent of the Proposition A Local Return Fund annual expenditures.
Cause	The Proposition A administrative expenditures exceeded the 20% cap due to the delay of several construction projects. General project expenses, planning, and administration were incurred during the year in preparation of construction implementation.
Effect	The City’s Proposition A Local Return Fund administrative expenditures exceeded 20% of the Proposition A Local Return annual expenditures. Therefore, the City did not comply with the Guidelines. The total questioned cost is \$86,523.
Recommendation	We recommend that the City reimburse the Proposition A Local Return Fund in the amount of \$86,523. Furthermore, we recommend the City establish procedures to ensure that the administrative expenditures are within the twenty percent cap of the Proposition A Local Return Fund’s total annual expenditures.
Management Response	The City concurs with the finding and will make the proper measures to ensure they will be in compliance in the future.

**Los Angeles County Metropolitan Transportation Authority
Proposition A and Proposition C Local Return Funds
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2017
(Continued)**

PCLRF Finding #2017-030	City of Rolling Hills Estates
Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, Section I (B3), "If Local Return Funds have been expended prior to LACMTA approval and/or used for ineligible purposes, Jurisdictions will be required to reimburse their Proposition A and Proposition C Local Return account..."
Condition	During the fiscal year ended June 30, 2017, the City expended \$12,133 of Proposition C Local Return Funds on traffic signal improvements that were approved by the LACMTA during the fiscal year ended June 30, 2016. The amount expended during the current fiscal year was the remaining portion of the approved budget that was not expended during the fiscal year ended June 30, 2016. However, the City did not include this carry-over project on its Annual Project Update (Form B) as required by the guidelines. As such, the funds were expended prior to LACMTA approval.
Cause	Since the City was not requesting an increase of budget for this project and had already received approval to expend the funds for these traffic signal improvements in the prior year, the City was unaware that they needed to include this carry-over project on the Annual Project Update (Form B).
Effect	Because this project was not properly included on the Annual Project Update (Form B), the expenditures made for traffic signal improvements during the fiscal year ended June 30, 2017, were incurred prior to LACMTA approval.
Recommendation	We recommend that the City implement internal control procedures to ensure that all carry-over projects that the City has received approval for in prior years are properly listed and coded on the Annual Project Update (Form B) for approval in as per the Guidelines.
Management Response	The City staff obtained approval for these expenditures during fiscal year 2016 but were unaware that they needed to be included on the Form B for approval again for fiscal year 2017. Management now understands that carryover projects must be included on Form B for approval and has included a note in the file to that effect.
Finding Corrected During the Audit	On November 27, 2017, the City received subsequent approval for the expenditures incurred; as such, this finding resulted in no questioned cost.

**Los Angeles County Metropolitan Transportation Authority
Proposition A and Proposition C Local Return Funds
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Fiscal Year Ended June 30, 2017
(Continued)**

PCLRF Finding #2017-031	City of San Dimas
Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, IV. Finance Section: E – Timely Use of Funds, “Jurisdictions have three years to expend LR funds. Funds must be expended within three years of the last day of the fiscal year in which funds were originally allocated. Therefore, by method of calculation, each Jurisdiction has the Fiscal Year of allocation plus three years to expend Proposition A and/or Proposition C funds.”
Condition	A portion of the City’s fiscal year 2014 ending fund balance in the amount of \$59,596 was not expended within 3 years as of June 30, 2017 and was not reserved for capital projects as required by Local Return guidelines. The City submitted Form A to LACMTA on October 26, 2017 to request the Proposition C Local Return funds to be placed on capital reserve and obtain LACMTA Board of Directors’ approval. The LACMTA Board meeting will be held in May 2018.
Cause	The email notice received from LACMTA each year to inform the cities of the potential funds to lapse was mistakenly forwarded to the City's spam folder.
Effect	The Proposition C Local Return funds were not expended or reserved within the Timely Use period resulting in questioned costs of \$59,596.
Recommendation	We recommend that the City return the lapsed Proposition C Local Return Funds of \$59,596 to LACMTA. In addition, we recommend that the City establish a policy in place where the City Manager, City Engineer and Finance Department discuss the availability of Proposition C Local Return funds in conjunction with any eligible PCLRF projects and submit its Form B (Annual Project Update Form) on time. Alternative measures would include requesting a Capital Reserve Agreement with LACMTA.
Management Response	We have worked with our Information Systems Administrator to assure that notices from LACMTA will reach the email inboxes of the City's staff and not the spam folder. As an additional precaution, the Administrative Services Manager will contact LACMTA at the beginning of each year (January) to assure measures are taken to spend the Local Return funds in order to prevent any lapse of funds.

**Los Angeles County Metropolitan Transportation Authority
 Proposition A and Proposition C Local Return Funds
 Schedule of Findings and Questioned Costs
 Fiscal Year Ended June 30, 2017
 (Continued)**

PALRF and PCLRF Finding #2017-032	City of San Marino
Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, Section I. C, "Jurisdictions shall submit on or before August 1 of each fiscal year an Annual Project Update to provide current information on all approved on-going and carryover LR projects."
Condition	The City did not meet the August 1, 2016 deadline for submission of the Annual Project Update (Form B). However, the City subsequently submitted the Form B on August 15, 2016.
Cause	The City employee responsible for the submission of the form missed the deadline set by LACMTA due to oversight.
Effect	The City's Form B was not submitted timely.
Recommendation	We recommend that the City establish procedures to ensure that the Form B is properly prepared and submitted before the due date of August 1st so that the City's expenditures of the Proposition A and C Local Return Funds will be in accordance with LACMTA's approval and the guidelines. Furthermore, we recommend the City to retain a confirmation of receipt by LACMTA to indicate the form was submitted in a timely manner.
Management Response	The City began a transition in financial management following the departure of its long-term Finance Director in June 2016 and the City's Public Works Director's departure three months later. Subsequent to these events, the City has employed various interim personnel for accounting and executive positions. The failure to complete Form B in a timely manner is not, from the context and perspective of hindsight, an unexpected event, however unfortunate. The City recently hired a permanent Public Works Director and is in the planning stages for permanent replacement hiring pertaining to accounting and executive management positions, and thus believes that faithful compliance with LACMTA rules and regulations will be restored.

**Los Angeles County Metropolitan Transportation Authority
 Proposition A and Proposition C Local Return Funds
 Schedule of Findings and Questioned Costs
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 (Continued)**

PALRF Finding #2017-033	City of Sierra Madre
Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, Section II, “A proposed expenditure of funds shall be deemed to be for public transit purposes to the extent that it can reasonably be expected to sustain or improve the quality and safety of and/or access to public transit services by the general public or those requiring special public transit assistance” and Section V, “It is jurisdictions’ responsibility to maintain proper accounting records and documentation...”
Condition	To support the propriety of expenditures being charged to the Proposition A Local Return Fund, non-payroll expenditures should be supported by properly executed contracts, invoices, and vouchers. Although payments made to First Transit, Inc. were allowable and properly supported by invoices and cancelled checks, the expenditures were not supported by a current and valid contract. No amendment to the contract was issued since its expiration on June 30, 2016. The total amount of \$142,005 paid to First Transit Inc. was charged to PALRF’s Project Code 240-01, Subsidized Taxi Service.
Cause	Due to personnel changes, the expiration of the contract agreement with First Transit, Inc. was overlooked by the City.
Effect	No contract to support the payments made to a vendor indicate a weakness in the City's internal control.
Recommendation	We recommend that the City establish controls to ensure that the costs charged to the Local Return funds, although allowable, are adequately supported by valid contracts, invoices, canceled checks or similar documentation so that the Local Return expenditures are in compliance with the Guidelines.
Management Response	The new management personnel is working on creating a new contract with the First Transit, Inc. The contract is on the City Council’s agenda for the next meeting scheduled on January 9, 2018.

**Los Angeles County Metropolitan Transportation Authority
Proposition A and Proposition C Local Return Funds
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2017
(Continued)**

PALRF Finding #2017-034	City of Signal Hill
Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, IV. Finance Section: E – Timely Use of Funds, “Jurisdictions have three years to expend LR funds. Funds must be expended within three years of the last day of the fiscal year in which funds were originally allocated. Therefore, by method of calculation, each Jurisdiction has the Fiscal Year of allocation plus three years to expend Proposition A and/or Proposition C funds.”
Condition	At June 30, 2017, the City had unspent PALRF funds included in their fund balance from FY 2014 in the amount of \$28,355. However, the City received an extension from LACMTA on November 20, 2017, to expend these funds; the funds must be expended by June 30, 2018.
Cause	The City was not aware of the necessity to monitor lapsing of Proposition A funds to ensure that they are spent within three fiscal years of the year of allocation.
Effect	As the City did not expend all of its fiscal year 2013-14 allocation as of June 30, 2017, those funds were not expended timely as per the Guidelines and were subject to lapse at June 30, 2017.
Recommendation	We recommend that the City implement internal control procedures to track the PALRF allocations and expenditures to ensure that all PALR funds are expended within the required timeline per the guidelines.
Management Response	The City will adhere to extension requirements.
Finding Corrected During the Audit	On November 20, 2017, the City received an extension on the lapsed funds from the LACMTA program manager. Funds must be expended by June 30, 2018.

**Los Angeles County Metropolitan Transportation Authority
 Proposition A and Proposition C Local Return Funds
 Schedule of Findings and Questioned Costs
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 (Continued)**

<p>PALRF Finding #2017-035</p>	<p>City of Signal Hill</p>
<p>Compliance Reference</p>	<p>According to Proposition A and Proposition C Local Return Guidelines, Section II, “A proposed expenditure of funds shall be deemed to be for public transit purposes to the extent that it can reasonably be expected to sustain or improve the quality and safety of and/or access to public transit services by the general public or those requiring special public transit assistance” and Section V, “It is jurisdictions’ responsibility to maintain proper accounting records and documentation...”</p> <p>In addition, LACMTA Local Return Program Manager issued a memo dated on April 29, 2014 to jurisdictions to provide recommendations to ensure that jurisdictions have adequate evidence to support its compliance with the Local Return Guidelines, those recommendations are “that an electronic system is acceptable as long as how much time is identified on the project (i.e. not just a clock-in-clock-out system) and this non-timesheet system, excel file or other, is authenticated by the employee and approved by one’s supervisor.” Also, “(4) Where employees work on multiple activities or cost objectives, a distribution or their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:</p> <p style="padding-left: 40px;">(b) A Federal award and non-Federal award.</p> <p>(5) Personnel activity reports or equivalent documentation must meet the following standards:</p> <p style="padding-left: 40px;">(b) They must reflect an after the fact distribution of the actual activity of each employee,</p> <p style="padding-left: 40px;">(f) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that: (i) the governmental unit’s system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) at least quarterly, comparisons of actual costs to budgeted distributions based on monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) the budget estimates or other distribution percentages are revised as least quarterly, if necessary, to reflect changed circumstances.”</p>

**Los Angeles County Metropolitan Transportation Authority
Proposition A and Proposition C Local Return Funds
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Fiscal Year Ended June 30, 2017
(Continued)**

PALRF Finding #2017-035 (Continued)	City of Signal Hill
Condition	The salaries and benefits totaling \$15,266 under Project 480-06 Staff Administration, was based on percentages determined by the City departments to be attributable to the LACMTA projects. However, the percentages utilized cannot be supported by timesheets or similar time and effort documentation to demonstrate that the salaries charged were expended on approved Proposition A Local Return projects.
Cause	The City states the amount allocated to PALRF is less than three (3) percent of total payroll expenditure of related employees. Thus, they did not perform a true-up procedure at year end as they felt the difference between the budgeted allocation and actual cost per labor distribution and similar support was immaterial.
Effect	The City did not comply with Proposition A and C Local Return Guidelines. The payroll costs claimed under the Proposition A Local Return Funds projects may include expenditures which may not be an allowable Proposition A project, resulting in questioned cost.
Recommendation	We recommend that the City modify its time sheet reporting format and implement internal control to ensure compliance with guidelines, or perform a true-up calculation at year end to adjusted budgeted payroll cost charged to fund to actual for the fiscal year ended. Additionally, we recommend that the City remit the un-supported payroll cost charged to the PALRF back to LACMTA as per the guidelines.
Management's Response	Although detailed time records are not maintained to evidence the actual amount of time by each staff member charged to the program, staff believes that the allocation is below the actual time spent to administer program services.

**Los Angeles County Metropolitan Transportation Authority
Proposition A and Proposition C Local Return Funds
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2017
(Continued)**

PALRF Finding #2017-036	City of South Pasadena
Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, Section I (B3), "If Local Return Funds have been expended prior to LACMTA approval and/or used for ineligible purposes, Jurisdictions will be required to reimburse their Proposition A and Proposition C Local Return account..."
Condition	<p>The City incurred PALRF expenditures prior to receiving approval from LACMTA for the following projects:</p> <p><i>New project:</i></p> <p>a) Project Code 150-02, Mission Street Business District Pedestrian Improvement Project in the amount of \$30,929</p> <p><i>Ongoing project:</i></p> <p>b) Project Code 130-01, Transit Software in the amount of \$35,034; c) Project Code 250-03, Bus Pass Subsidy Program in the amount of \$6,910.</p> <p>However, Form A was subsequently approved on December 12, 2017.</p>
Cause	It was the City's understanding that ongoing (OG) projects did not have to be submitted for approval every year.
Effect	The City did not comply with the Guidelines when expenditures for PALRF project are incurred prior to LACMTA's approval.
Recommendation	We recommend that the City establish procedures to ensure that it obtains approval from LACMTA prior to incurring PALRF expenditures. Form A should be prepared for all new projects and submitted to LACMTA anytime during the year, and ongoing projects should be included in Form B to be submitted on or before August 1 of each fiscal year.
Management's Response	In the future, the City's staff will ensure that all ongoing projects are all approved prior to incurring expenditures.
Finding Corrected During Audit	The City filed Form A and was subsequently approved by LACMTA Program Manager on December 12, 2017.

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PALRF Finding #2017-037	City of South Pasadena
Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, Section I (C), Project Description Form (Form A), Item 5: "Jurisdictions shall submit for approval a Project Description Form prior to the expenditure of funds for a 25 percent or greater change in an approved Local Return project budget or scope on all operating or capital Local Return projects."
Condition	The City expended more than 25 percent of LACMTA's approved budget on PALRF Project Code 180-01, Purchase Paratransit Van in the amount of \$43,924. However, the City filed the Form A to obtain a retroactive approval on the budget amendment for the project from LACMTA. The Form A was subsequently approved on October 16, 2017. This is a repeat finding from the prior year.
Cause	The City Council approved the purchase of an electric (alternative fuel) paratransit van as opposed to a CNG van. A paratransit van normally costs more than a CNG van. The purchase amount includes the cost and installation of the electric charger for the van resulting to expenditures exceeding the budget by over 25%.
Effect	The City's PALRF expenditures for Project Code 180-01, Purchase Paratransit Van Project exceeded 25 percent of LACMTA's approved budget without LACMTA's approval and the City did not comply with the Guidelines.
Recommendation	We recommend that the City establish procedures to ensure that project expenditures are within the 25 percent cap of the LACMTA's approved budget and an amended Form A is properly prepared and submitted prior to the expenditure of funds which would result in a 25 percent or greater change in an approved Local Return project budget or scope on all operating or capital Local Return projects.
Management Response	The City's staff will monitor the budget and submit the appropriate forms to LACMTA if there are necessary adjustments to the budget.
Finding Corrected During Audit	The City filed Form A and was subsequently approved on October 16, 2017. No follow up is required.

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PALRF and PCLRF Finding #2017-038	City of South Pasadena
Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, Section I-C, "Jurisdictions shall submit on or before August 1 of each fiscal year an Annual Project Update to provide current information on all approved on-going and carryover Local Return projects."
Condition	The City did not meet the August 1, 2016 deadline for submission of the Annual Project Update (Form B). However, the City subsequently submitted the Form B on August 15, 2017.
Cause	Due to an oversight, the City missed the deadline submission of Form B to LACMTA. The City submitted the Form B on August 15, 2017.
Effect	The City's Form B was not submitted timely.
Recommendation	We recommend that the City establish controls to ensure that the Form B is properly prepared and submitted before the due date of August 1st so that the City's expenditures of the Proposition A & C Local Return Funds will be in accordance with LACMTA's approval and the guidelines. Furthermore, we recommend the City retain a confirmation of receipt by LACMTA to indicate the form was submitted in a timely manner.
Management Response	In the future, the City's staff will ensure that the Form B for the proper fiscal year will be submitted to LACMTA in a timely manner.

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 (Continued)**

PALRF Finding #2017-039	City of Temple City
Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, Section II, “A proposed expenditure of funds shall be deemed to be for public transit purposes to the extent that it can reasonably be expected to sustain or improve the quality and safety of and/or access to public transit services by the general public or those requiring special public transit assistance” and Section V, “It is jurisdictions’ responsibility to maintain proper accounting records and documentation...”
Condition	To support the propriety of expenditures being charged to the Proposition A Local Return Fund, non-payroll expenditures should be supported by properly executed contracts, invoices, and vouchers. Although payments to vendors were allowable and were properly supported by invoices and cancelled checks, the following expenditures were not supported by an existing contract or purchase order form for the following vendors: (a) Payments made to the vendor, Elite School Transit, were charged to PALRF’s Recreational Transit project in the total amount of \$14,400. (b) Payments made to vendor, Inland Empire Tours and Transportation, were charged to PALRF's Recreational Transit project in the total amount of \$16,704.
Cause	The vendors were hesitant to enter into contract agreements due to the extensive stringent endorsement insurance requirements by the City.
Effect	No contract or purchase order form to support the payments made to the vendors, Elite School Transit and Inland Empire Tours and Transportation, indicates a weakness in the City’s internal control.
Recommendation	We recommend that the City establish controls to ensure that the costs charged to the Local Return Funds, although allowable, are adequately supported by contracts, invoices, canceled checks or similar documentation so that Local Return expenditures are in compliance with the Guidelines.
Management Response	The City has already procured a contract with a vendor who has properly met the insurance requirements in FY 2017-18.

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(Continued)**

PALRF and PCLRF Finding #2017-040	City of Temple City
Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, Section IV.C.4, "Jurisdictions must maintain accurate records for the amount of interest earned each year."
Condition	<p>During our review of the of the interest income allocated to PALRF and PCLRF, we noted that the cash balances used as the basis for the allocation was constant throughout the fiscal year and was not adjusted by monies received and monies spent against the Local Return funds. Based on our re-calculation of the proper interest income to be allocated are as follows:</p> <p>(a) Interest income to PALRF should be \$4,612, but only \$944 was allocated. A difference of \$3,668.</p> <p>(b) Interest income to PCLRF should be \$4,705, but only \$484 was allocated. A difference of \$4,221.</p> <p>According to the City, the additional interest income for PALRF and PCLRF will be recorded in FY 2017-18.</p>
Cause	Due to lack of staff availability, the calculation of the average cash balances as the basis for the allocation was not performed during the fiscal year.
Effect	Since the City did not use the true cash balances of the LRFs as the basis for the interest income allocation, the interest income allocated to the funds were determined to be unreasonable and resulted in questioned costs of \$7,889.
Recommendation	We recommend that the City reimburse its PALRF and PCLRF Accounts in the amounts of \$3,668 and \$4,221, respectively. The City needs to establish controls to ensure that the actual cash balances or the actual average cash balances of the LRFs are used as the proper basis for the allocation of the interest income. Furthermore, the City should allocate the interest income more frequently, i.e. on a quarterly basis, instead of, on a yearly basis, in order to reflect a more reasonable distribution of the interest income to the LRFs.
Management Response	Beginning fiscal year 2017-18, the City will allocate interest to the LRFs based on actual cash balances on a quarterly basis.
Finding Corrected During the Audit	The City recorded the interest income adjustment that is due to PALRF and PCLRF in the amounts of \$3,668 and \$4,221 in FY 2017-18 and provided the LACMTA auditors a copy of the journal entry.

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PALRF and PCLRF Finding #2017-041	City of West Covina
Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, Section I (B.3), "If Local Return Funds have been expended prior to LACMTA approval and/or used for ineligible purposes, Jurisdictions will be required to reimburse their Proposition C Local Return account..."
Condition	<p>The City incurred expenditures in the amounts of \$54,540 and \$314,454 for PALRF and PCLRF, respectively, for a total amount of \$368,994, prior to receiving approval from LACMTA for the following projects:</p> <ul style="list-style-type: none"> a) PALRF's Project Code 200-01, Purchase of Buses - Fixed Route, in the amount of \$47,515. However, the project was subsequently approved on September 26, 2017. b) PALRF's Project Code 480-02, Administration, in the amount of \$7,025. However, the project was subsequently approved on October 4, 2017. c) PCLRF's Project Code 270-07, Design of Glendora Avenue, in the amount of \$259,157. However, the project was subsequently approved on September 29, 2017. d) PCLRF's Project Code 420-01, General Plan Circulation Element, in the amount of \$55,297. However, the project was subsequently approved on September 26, 2017.
Cause	<p>The causes for the expenditures incurred prior to receiving LACMTA approval for the following projects were as follows:</p> <ul style="list-style-type: none"> a) The City mistakenly requested the approval for PALRF's Project Code 200-01, Purchase of Buses - Fixed Route, as a carryover PCLRF project in Form B. b) There was no initial budget submitted for PALRF's Project Code 480-02, Administration. However in fiscal year 2016-17, there were allowable overhead charges based on the cost allocation plan prepared by a third party allocated to PALRF. The City requested LACMTA's approval retroactively for the charges. c) The City mistakenly did not include the PCLRF's Project Code 270-07, Design of Glendora Avenue, as a carryover PCLRF project in Form B. d) The City mistakenly did not include the PCLRF's Project Code 420-01, General Plan Circulation Element, as a carryover PCLRF project in Form B.
Effect	The City did not comply with the Guidelines when expenditures for PALRF and PCLRF project are incurred without LACMTA's approval.

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 (Continued)**

PALRF and PCLRF Finding #2017-041 (Continued)	City of West Covina
Recommendation	We recommend that the City establish procedures to ensure that it obtains approval from LACMTA prior to implementing any Proposition A and Proposition C Local Return projects. Form B (Annual Project Summary Report) should be properly prepared and submitted before the due date of August 1st so that the City’s expenditures of Proposition A and Proposition C Local Return Funds are in accordance with LACMTA’s approval and the Guidelines. In accordance with the Guidelines, the City should include all approved on-going and carryover Local Return projects in Form B.
Management Response	In the future, the City will incorporate a second level of review of submittals and request a project listing from LACMTA at mid-year to identify and correct any discrepancies on the projects approved.
Finding Corrected During the Audit	LACMTA Program Manager granted retroactive approval of the expenditures for PALRF’s Purchase of Buses - Fixed Route Project Code 200-01 on September 26, 2017, PALRF’s Administration Project Code 480-02 on October 4, 2017, PCLRF’s Design of Glendora Avenue Project Code 270-07 on September 29, 2017 and PCLRF’s General Plan Circulation Element Project Code 420-01 on September 26, 2017.

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(Continued)**

PALRF Finding #2017-042	City of Whittier
Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, Section II, "A proposed expenditure of funds shall be deemed to be for public transit purposes to the extent that it can reasonably be expected to sustain or improve the quality and safety of and/or access to public transit services by the general public or those requiring special public transit assistance" and Section V, "It is jurisdictions' responsibility to maintain proper accounting records and documentation..."
Condition	To support the propriety of expenditures being charged to the Proposition A Local Return Fund, non-payroll expenditures should be supported by properly executed contracts, invoices, and vouchers, or other official documentation evidencing in proper detail the nature of the charges. Although payments to vendors were properly supported by invoices and cancelled checks, the payments to ND Construction in the total amount of \$103,476 under PALRF were based on an expired contract agreement and were charged to Bus Stop Refurbishment Project Code 160-122, an approved project. No amendments to the contract were issued since August 14, 2013.
Cause	The City believed that it does not require for contracts to be approved once funds are appropriated.
Effect	No documentation to support that both parties agree to extend the terms of the agreement indicates a weakness in the City's internal control.
Recommendation	We recommend that the City establish controls to ensure that the costs charged to the Local Return funds are adequately supported by contracts, invoices, canceled checks or similar documentation. We recommend that the City update the contract annually and issue an extension or amendment to provide proper documentation that both parties, mutually agree to the terms and conditions of the contract, including but not limited to, level of service, type of service, and rates.
Management Response	The City believed that the contract with ND Construction did not expire. It is the City's understanding that it is not uncommon for large projects to extend over multiple years due to various circumstances and the extension of contracts does not need approval once funds are appropriated.
Auditor's Rejoinder	A contract extension is necessary to provide proper supporting documentation that both the City and ND Construction mutually agree to the terms and conditions of the original contract. The representation by the City's management that the contract extension with ND Construction is not required since funds have been appropriated for the services to be provided does not resolve the finding.