

***CITY OF HAWAIIAN GARDENS
ANNUAL FINANCIAL REPORT OF THE
PROPOSITION A LOCAL RETURN FUND
PROPOSITION C LOCAL RETURN FUND
MEASURE R LOCAL RETURN FUND
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 3 FUND***

***FOR THE FISCAL YEARS ENDED
JUNE 30, 2016 AND 2015***



Simpson & Simpson, LLP
Certified Public Accountants

CITY OF HAWAIIAN GARDENS

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FINANCIAL SECTION



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS
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BRAINARD C. SIMPSON, CPA
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Independent Auditor's Report

To the Honorable Members of the City Council of the
City of Hawaiian Gardens, California and the
Los Angeles County Metropolitan Transportation Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Proposition A Local Return Fund (PALRF), Proposition C Local Return Fund (PCLRF), Measure R Local Return Fund (MRLRF), and Transportation Development Act Article 3 Fund (TDAA3F) of the City of Hawaiian Gardens, California (City) as of and for the years ended June 30, 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the PALRF, PCLRF, MRLRF, and TDAA3F of the City of Hawaiian Gardens, California, as of June 30, 2016, and the respective changes in their financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the PALRF, PCLRF, MRLRF, and TDAA3F as of and for the year ended June 30, 2015, were audited by other auditors, whose report, dated March 18, 2016, expressed an unmodified opinion on those financial statements.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the PALRF, PCLRF, MRLRF, and TDAA3F and do not purport to, and do not, present fairly the financial position of the City of Hawaiian Gardens, California, as of June 30, 2016 and 2015, and the changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hawaiian Gardens, California's PALRF, PCLRF, MRLRF, and TDAA3F Fund financial statements as a whole. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects, in relation to the financial statements as a whole.



Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated October 28, 2016, on our consideration of the City of Hawaiian Gardens' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Simpson & Simpson". The signature is written in a cursive, flowing style.

Los Angeles, California
October 28, 2016

CITY OF HAWAIIAN GARDENS

PROPOSITION A LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and investments	\$ <u>393,689</u>	\$ <u>365,489</u>
Total assets	\$ <u><u>393,689</u></u>	\$ <u><u>365,489</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 2,944	\$ 10,272
Accrued payroll and employee benefits	<u>5,052</u>	<u>13,448</u>
Total liabilities	<u>7,996</u>	<u>23,720</u>
 Fund Balance		
Restricted	<u>385,693</u>	<u>341,769</u>
Total fund balance	<u>385,693</u>	<u>341,769</u>
Total liabilities and fund balance	\$ <u><u>393,689</u></u>	\$ <u><u>365,489</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF HAWAIIAN GARDENS

PROPOSITION A LOCAL RETURN FUND

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	2016	2015
REVENUES		
Proposition A	\$ 260,935	\$ 254,226
Proposition A fund exchange (Note7)	430,000	650,000
Interest income	1,509	999
Project generated revenue (Note 8)	370	564
Total revenues	692,814	905,789
EXPENDITURES		
Various projects	648,890	564,994
Total expenditures	648,890	564,994
Excess of revenues over expenditures	43,924	340,795
Fund balance at beginning of year	341,769	974
Fund balance at end of year	\$ 385,693	\$ 341,769

The accompanying notes are an integral part of the financial statements.

CITY OF HAWAIIAN GARDENS

PROPOSITION A LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES

ACTUAL AND METRO APPROVED PROJECT BUDGET

For the Fiscal Year Ended June 30, 2016

(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2015)

Project Code	Project Name	2016		Variance	2015 Actual
		Metro Budget	Actual	Favorable (Unfavorable)	
110-06	Long Beach Transit - Fixed Route	\$ 12,500	\$ 13,969	\$ (1,469)	\$ 12,417
130-05	Human Services Transportation Program	291,710	460,109	(168,399)	464,578
150-07	Bus Stop Maintenance Program	51,553	47,403	4,150	46,880
180-01	Transportation Capital - Purchase of a Bus	90,000	85,982	4,018	-
250-01	Bus Pass Subsidy	1,000	763	237	1,100
480-02	Transportation Administration	41,398	40,664	734	40,019
	Total expenditures	<u>\$ 488,161</u>	<u>\$ 648,890</u>	<u>\$ (160,729)</u>	<u>\$ 564,994</u>

* The actual variance after considering other funding sources is calculated as follows:

LACMTA Budget	\$ 291,710
Total Expenditures	\$ 460,109
Less: Proposition A fund exchange (Note7)	<u>(430,000)</u>
PALRF Expenditures	30,109
Actual variance - positive	<u>\$ 261,601</u>

See accompanying independent auditor's report.

CITY OF HAWAIIAN GARDENS

PROPOSITION A LOCAL RETURN FUND

**SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS**

June 30, 2016

Date Acquired	Description	Balance 7/1/2015	Additions	Deletions	Balance 6/30/2016
1984	Toyota Flatbed Truck	\$ 4,000	\$ -	\$ -	\$ 4,000
1985	Bobcat Tractor	13,057	-	-	13,057
1989	Cushman Haulster Turf Vehicles	6,358	-	-	6,358
1991	Chevrolet C-2500 Truck	16,000	-	-	16,000
1994	Speed Trailer	14,473	-	-	14,473
1994	Ford CT4192 Skip Loader	37,826	-	-	37,826
1996	Chevrolet Stakebed Truck	25,801	-	-	25,801
1997	Ford F-250XL Truck	25,174	-	-	25,174
1997	Ford F-250XL Truck	24,928	-	-	24,928
2000	Ford Truck Aerial Lift	65,063	-	-	65,063
2003	Ford Escape Sedan	21,606	-	-	21,606
2003	Ford F-150 Truck	20,030	-	-	20,030
2004	Ford F-150 Truck	24,184	-	-	24,184
2005	Vintage Cab	13,194	-	-	13,194
2005	Tennant 6650 Small Street Sweeper	29,851	-	-	29,851
2006	Lincoln Town Car	25,973	-	-	25,973
2006	Kohler 26hp EFI Riding Lawnmower	11,747	-	-	11,747
2006	Starcraft Allstar Econobus/Shuttle Bus	57,260	-	-	57,260
2007	Ford Escape - Hybrid FWD	25,073	-	-	25,073
2007	Ford Escape - Hybrid FWD	25,073	-	-	25,073
2007	Ford Truck - Regular Cab	16,484	-	-	16,484
2007	Ford Truck - Regular Cab	16,484	-	-	16,484
2007	Scissor Lift	16,031	-	-	16,031
2007	El Dorado Aerotech 240	35,101	-	-	35,101
2016	Starcraft 20 Passenger Bus	-	85,982	-	85,982
	Total	\$ 570,771	\$ 85,982	\$ -	\$ 656,753

See accompanying independent auditor's report.

CITY OF HAWAIIAN GARDENS

PROPOSITION C LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and investments	\$ <u>12,283</u>	\$ <u>99,197</u>
Total assets	\$ <u><u>12,283</u></u>	\$ <u><u>99,197</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 2,904	\$ 6,754
Accrued payroll liabilities	<u>1,541</u>	<u>3,894</u>
Total liabilities	<u>4,445</u>	<u>10,648</u>
 Fund Balance		
Restricted	<u>7,838</u>	<u>88,549</u>
Total fund balance	<u>7,838</u>	<u>88,549</u>
 Total liabilities and fund balance	\$ <u><u>12,283</u></u>	\$ <u><u>99,197</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF HAWAIIAN GARDENS

PROPOSITION C LOCAL RETURN FUND

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	<u>2016</u>	<u>2015</u>
REVENUES		
Proposition C	\$ 217,645	\$ 212,111
Interest income	<u>184</u>	<u>220</u>
Total revenues	<u>217,829</u>	<u>212,331</u>
EXPENDITURES		
Various projects	<u>298,540</u>	<u>205,295</u>
Total expenditures	<u>298,540</u>	<u>205,295</u>
(deficiency) excess of revenues over expenditures	(80,711)	7,036
Fund balance at beginning of year	<u>88,549</u>	<u>81,513</u>
Fund balance at end of year	\$ <u><u>7,838</u></u>	\$ <u><u>88,549</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF HAWAIIAN GARDENS

PROPOSITION C LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES

ACTUAL AND METRO APPROVED PROJECT BUDGET

For the Fiscal Year Ended June 30, 2016

(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2015)

Project Code	Project Name	2016		Variance	2015 Actual
		Metro Budget	Actual	Favorable (Unfavorable)	
120-04	Paratransit Program	\$ 137,677	\$ 147,227	\$ (9,550)	\$ 140,054
180-01	Transportation Capital - Purchase of Bus	90,000	85,982	4,018	-
270-01	Corridor Study	-	-	-	20,000
270-02	Dues for Council of Governments	-	-	-	5,018
480-03	Transportation Administration	68,423	65,331	3,092	40,223
	Total expenditures	<u>\$ 296,100</u>	<u>\$ 298,540</u>	<u>\$ (2,440)</u>	<u>\$ 205,295</u>

See accompanying independent auditor's report.

CITY OF HAWAIIAN GARDENS
PROPOSITION C LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

June 30, 2016

<u>Date Acquired</u>	<u>Description</u>	<u>Balance 7/1/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2016</u>
2008	El Dorado Aerotech 240	\$ 35,101	\$ -	\$ -	\$ 35,101
2010	Honda Odyssey	33,567	-	-	33,567
2016	Starcraft 20 Passenger Bus	-	85,982	-	85,982
	Total	\$ <u>68,668</u>	\$ <u>85,982</u>	\$ <u>-</u>	\$ <u>154,650</u>

See accompanying independent auditor's report.

CITY OF HAWAIIAN GARDENS

MEASURE R LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and investments	\$ <u>380,067</u>	\$ <u>288,786</u>
Total assets	\$ <u><u>380,067</u></u>	\$ <u><u>288,786</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ <u>-</u>	\$ <u>4,480</u>
Total liabilities	<u>-</u>	<u>4,480</u>
 Fund Balance		
Restricted	<u>380,067</u>	<u>284,306</u>
Total fund balance	<u>380,067</u>	<u>284,306</u>
 Total liabilities and fund balance	\$ <u><u>380,067</u></u>	\$ <u><u>288,786</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF HAWAIIAN GARDENS

MEASURE R LOCAL RETURN FUND

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	<u>2016</u>	<u>2015</u>
REVENUES		
Measure R	\$ 162,427	\$ 158,191
Interest income	<u>992</u>	<u>934</u>
Total revenues	<u>163,419</u>	<u>159,125</u>
EXPENDITURES		
Various projects	<u>67,658</u>	<u>343,416</u>
Total expenditures	<u>67,658</u>	<u>343,416</u>
Excess (deficiency) of revenues over expenditures	95,761	(184,291)
Fund balance at beginning of year	<u>284,306</u>	<u>468,597</u>
Fund balance at end of year	\$ <u><u>380,067</u></u>	\$ <u><u>284,306</u></u>

The accompanying notes are an integral part of the financial statements

CITY OF HAWAIIAN GARDENS

MEASURE R LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES

ACTUAL AND METRO APPROVED PROJECT BUDGET

For the Fiscal Year Ended June 30, 2016

(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2015)

Project Code	Project Name	2016		Variance	2015 Actual
		Metro Budget	Actual	Favorable (Unfavorable)	
1.05	Street Overlays for Pavement Management Plan	\$ 150,000	\$ 30,709	\$ 119,291	\$ 343,416
1.90	Bridge Maintenance	13,000	13,000	-	-
3.05	Remove and Replace Sidewalks	10,000	10,000	-	-
5.05	Replace Bus Pads	48,000	13,949	34,051	-
	Total expenditures	<u>\$ 221,000</u>	<u>\$ 67,658</u>	<u>\$ 153,342</u>	<u>\$ 343,416</u>

See accompanying independent auditor's report.

CITY OF HAWAIIAN GARDENS

MEASURE R LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION

SCHEDULE OF CAPITAL ASSETS

June 30, 2016

<u>Date Acquired</u>	<u>Description</u>	<u>Balance 7/1/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2016</u>
	None	\$ -	\$ -	\$ -	\$ -
	Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditor's report.

CITY OF HAWAIIAN GARDENS

**TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND
(PURSUANT TO PUBLIC UTILITIES CODE SECTION 99234)**

BALANCE SHEETS

JUNE 30

	<u>2016</u>	<u>2015</u>
ASSETS		
Due from MTA	\$ <u>-</u>	\$ <u>-</u>
Total assets	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Due to other funds	\$ <u>10,000</u>	\$ <u>-</u>
Total liabilities	<u>10,000</u>	<u>-</u>
 Fund Balance		
Restricted	<u>(10,000)</u>	<u>-</u>
Total fund balance	<u>(10,000)</u>	<u>-</u>
 Total liabilities and fund balance	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF HAWAIIAN GARDENS

TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND

**STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	<u>2016</u>	<u>2015</u>
REVENUES		
Payment from prior year reserve	\$ <u>-</u>	\$ <u>-</u>
Total revenues	<u>-</u>	<u>-</u>
EXPENDITURES		
Installation of ADA Pedestrian Ramps - Grinding/Removal of Sidewalk	<u>10,000</u>	<u>-</u>
Total expenditures	<u>10,000</u>	<u>-</u>
(Deficiency) excess of revenues over expenditures	(10,000)	-
Fund balance at beginning of year	<u>-</u>	<u>-</u>
Fund balance at end of year	\$ <u><u>(10,000)</u></u>	\$ <u><u>-</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF HAWAIIAN GARDENS

**TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND
SUPPLEMENTARY INFORMATION**

**SCHEDULE OF TRANSPORTATION DEVELOPMENT ACT
ALLOCATION FOR SPECIFIC PROJECTS**

For the Fiscal Year Ended June 30, 2016

<u>Project Description</u>	<u>Program Year</u>	<u>Allocations</u>	<u>Expenditures</u>	<u>Unexpended Allocations</u>	<u>Project Status</u>
Local allocations					
Installation of ADA Pedestrian Ramps - Grinding/Removal of Sidewalk	2015-16	\$ -	\$ 10,000	\$ (10,000)	Complete
	Total	\$ -	\$ 10,000	(10,000)	
Fund balance at beginning of year				-	
Fund balance at end of year				\$ (10,000)	

See accompanying independent auditor's report.

CITY OF HAWAIIAN GARDENS

NOTES TO FINANCIAL STATEMENTS **For the Fiscal Years Ended June 30, 2016 and 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The operations of the Proposition A Local Return Fund (PALRF) and Proposition C Local Return Funds (PCLRF), Measure R Local Return Fund (MRLRF), and Transportation Development Act Article 3 Fund (TDAA3F) are accounted for in separate sets of self-balancing accounts that comprise their assets, liabilities, fund balance, revenues and expenditures.

PALRF and PCLRF represent 25% and 20% respectively, of the ½ cent Proposition A and ½ cent Proposition C sales taxes which are distributed to the jurisdictions within Los Angeles County based on population and must be used exclusively for transportation related programs and projects.

MRLRF represents 15% of the ½ cent sales tax which is distributed to the jurisdictions within Los Angeles County based on a per capita basis and must be used exclusively for transportation purposes.

Transportation Development Act Article 3 Fund (TDAA3F) is a Special Revenue Fund that accounts for the City's share of the Transportation Development Act Article 3 allocations which are legally restricted for specific purposes.

Basis of Accounting and Measurement Focus

PALRF, PCLRF, MRLRF, and TDAA3F are accounted for using the modified accrual basis of accounting whereby revenues are recognized when they become both measurable and available to finance expenditures of the current period and expenditures are generally recognized when the related fund liabilities are incurred.

Special Revenue funds are reported on a spending or "financial flow" measurement focus. This means that generally only current assets, current liabilities and deferred inflows and outflows of resources are included on their balance sheets. Statements of revenues, expenditures and changes in fund balances for Special Revenue Funds generally present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Budgets and Budgetary Accounting

The budgeted amounts presented in this report for comparison to the actual amounts are presented in accordance with accounting principles generally accepted in the United States of America.

CITY OF HAWAIIAN GARDENS

NOTES TO FINANCIAL STATEMENTS **For the Fiscal Years Ended June 30, 2016 and 2015** **(Continued)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement

In accordance with GASB Statement No. 72, Fair Value Measurement and Application, which became effective for the fiscal year ended June 30, 2016, the City categorizes its fair value measurement within the fair value hierarchy that is based on the valuation inputs used to measure the fair value of the investment. Level 1 inputs are quoted prices in active markets for identical investments; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Accordingly, the City reports its investments at fair value and recognizes unrealized gain (loss) on investments.

Refer to the City's 2016 Comprehensive Annual Financial Report for detailed disclosures regarding the City's investments policy and fair value measurements.

Fund Balance Reporting

Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, establishes the fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The PALRF, PCLRF, MRLRF, and TDAA3F report the following fund balance classification as of June 30, 2016:

- Restricted – Amounts that are constrained for specific purposes, which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation. The use of the Funds' remaining fund balances are restricted for projects approved by LACMTA.

Information regarding the fund balance reporting policy adopted by the City is described in Note 1 to the City's Comprehensive Annual Financial Report.

NOTE 2 – ANNUAL FINANCIAL STATEMENTS

The financial statements reflect only the financial position and results of operations of the PALRF, PCLRF, MRLRF, and TDAA3F and their compliance with the Proposition A and Proposition C Local Return Program Guidelines, Measure R Local Return Program Guidelines, Transportation Development Act Article 3, and the Los Angeles County Metropolitan Transportation Authority Funding and Allocation Guidelines for Transportation Development Act Article 3 Bicycle and Pedestrian Funds.

CITY OF HAWAIIAN GARDENS

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2016 and 2015
(Continued)

NOTE 3 – PROPOSITION A AND PROPOSITION C LOCAL RETURN COMPLIANCE REQUIREMENTS

In accordance with Proposition A and Proposition C Local Return Program Guidelines, funds received pursuant to these guidelines may only be used for Proposition A and Proposition C Local Return approved programs.

NOTE 4 – MEASURE R LOCAL RETURN COMPLIANCE REQUIREMENTS

In accordance with Measure R Local Return Program Guidelines, funds received pursuant to these guidelines may only be used for Measure R Local Return approved programs.

NOTE 5 – TRANSPORTATION DEVELOPMENT ACT COMPLIANCE REQUIREMENTS

In accordance with Public Utilities Code Section 99234, funds received pursuant to this Code's section may only be used for activities relating to pedestrians and bicycle facilities.

NOTE 6 – CASH AND INVESTMENTS

The PALRF, PCLRF, MRLRF, and TDAA3F cash balances were pooled with various other City funds for deposit and investment purposes. The share of each fund in the pooled cash account was separately maintained and interest income was apportioned to the participating funds based on the relationship of their average balances to the total of the pooled cash and investments.

NOTE 7 – PROPOSITION A FUND EXCHANGE - PALRF

On August 18, 2015, the City entered into an agreement with the City of West Covina to exchange \$.75 (or 75 cents) of General fund for every \$1 of Proposition A Local Return Funds. Accordingly, the City received \$350,000 of the City of West Covina's Proposition A Local Return Funds on October 7, 2015 and assigned \$262,500 of its General Funds to the City of West Covina on September 24, 2015.

On June 11, 2015, the City entered into an agreement with the City of La Habra to exchange \$.75 (or 75 cents) of General Fund for every \$1 of Proposition A Local Return Funds. Accordingly, the City received \$80,000 of the City of La Habra's Proposition A Local Return Funds on August 17, 2015 and assigned \$60,000 of its General Funds to the City of La Habra on July 17, 2015.

In fiscal year 2015, the City entered into an agreement in July 2014 with the City of Maywood to exchange \$.70 (or 70 cents) of General fund for every \$1 of Proposition A Local Return Funds. Accordingly, the City received \$500,000 of the City of Maywood's Proposition A Local Return Funds and assigned \$350,000 of its General Funds to the City of Maywood.

CITY OF HAWAIIAN GARDENS

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2016 and 2015
(Continued)

NOTE 7 – PROPOSITION A FUND EXCHANGE – PALRF (Continued)

In fiscal year 2015, the City entered into an agreement in June 2014 with the City of La Habra to exchange \$.75 (or 75 cents) of General fund for every \$1 of Proposition A Local Return Funds. Accordingly, the City received \$80,000 of the City of La Habra's Proposition A Local Return Funds and assigned \$60,000 of its General Funds to the City of La Habra.

In fiscal year 2015, the City entered into an agreement in May 2013 with the City of La Habra to exchange \$.75 (or 75 cents) of General fund for every \$1 of Proposition A Local Return Funds. Accordingly, the City received \$70,000 of the City of La Habra's Proposition A Local Return Funds and assigned \$52,500 of its General Funds to the City of La Habra.

NOTE 8 – PROJECT GENERATED REVENUE - PALRF

Project generated revenues for the years ended June 30, 2016 and June 30, 2015 for PALRF amounted to \$370 and \$564, respectively. These revenues were from the sale of bus passes to the public.

NOTE 9 – TRANSPORTATION DEVELOPMENT ACT FUNDS RESERVED

In accordance with TDA Article 3 (SB821) Guidelines, funds not spent during the fiscal year have been placed on reserve in the Local Transportation Fund (LTF) account with the County Auditor-Controller to be drawn down whenever the funds become eligible for a specific project and an approved drawdown request is received by Metro. As of June 30, 2016 and 2015, the City has funds on reserve as follows:

	2016	2015
FY 2012-13 reserve	\$ 11,314	\$ 11,314
FY 2013-14 reserve	11,659	11,659
FY 2014-15 reserve	9,501	9,501
FY 2015-16 reserve	9,226	-
Total	<u>\$ 41,700</u>	<u>\$ 32,474</u>

NOTE 10 – SUBSEQUENT EVENTS

The City has evaluated events or transactions that occurred subsequent to June 30, 2016 through October 28, 2016, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined no subsequent matters require disclosure or adjustment to the accompanying financial statements.



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRAINARD C. SIMPSON, CPA
MELBA W. SIMPSON, CPA

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the Honorable Members of the City Council of the
City of Hawaiian Gardens, California and the
Los Angeles County Metropolitan Transportation Authority

We have audited, in accordance with 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, the financial statements of the Proposition A Local Return Fund (PALRF), Proposition C Local Return Fund (PCLRF), Measure R Local Return Fund (MRLRF), and Transportation Development Act Article 3 Fund (TDAA3F) of the City of Hawaiian Gardens, California (City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's local return funds and TDAA3F financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However material weaknesses may exist that have not been identified.





Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Simpson & Simpson".

Los Angeles, California
October 28, 2016

COMPLIANCE SECTION



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
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Independent Auditor's Report on Compliance

To the Honorable Members of the City Council of the
City of Hawaiian Gardens, California and the
Los Angeles County Metropolitan Transportation Authority

Report on Compliance

We have audited the compliance of the City of Hawaiian Gardens, California (City) with the Proposition A and Proposition C Local Return Guidelines, Measure R Local Return Guidelines, Transportation Development Act Article 3, and the Los Angeles County Metropolitan Transportation Authority's Funding and Allocation Guidelines for the Transportation Development Act Article 3 Bicycle and Pedestrian Funds (Guidelines) for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for the City's compliance with those guidelines.

Auditor's Responsibility

Our responsibility is to express an opinion on the City's compliance based on our audit. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Guidelines referred to in the preceding paragraph. Those standards and the Guidelines require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a local return program and the Transportation Development Act Article 3 occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance. Our audit does not provide a legal determination of the City's compliance with those requirements.

Opinion on Each Local Return Program and Transportation Development Act Article 3

In our opinion, except as noted in the Compliance Matrix and the Schedule of Findings and Questioned Costs, the City of Hawaiian Gardens complied, in all material respects, with the compliance requirements referred to above that apply to Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, and Transportation Development Act Article 3 Fund for the year ended June 30, 2016.



The CPA. Never Underestimate The Value.™

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Guidelines and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding Nos. 2016-001, 2016-002, 2016-003, 2016-004, and 2016-005. Our opinion on each local return program is not modified with respect to these matters.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City's 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

Management of the City of Hawaiian Gardens is responsible for establishing and maintaining effective internal control over compliance with the Requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the Requirements that could have a direct and material effect on the Local Return programs and the TDAA3F 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 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 the City'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 we consider to 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 Requirements on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance under the Requirements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Finding No. 2016-001 related to PCLRF to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with the 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 deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Finding No. 2016-001 related to PALRF to be a significant deficiency.



The responses by the City to the internal control over compliance findings identified in our audits are described in the accompanying Schedule of Findings and Questioned Costs. The responses by the City were not subject 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 of internal control over compliance and the results of that testing based on the requirement of the Guidelines. Accordingly, this report is not suitable for any other purpose.

Simpson & Simpson

Los Angeles, California
October 28, 2016

CITY OF HAWAIIAN GARDENS
COMPLIANCE MATRIX
Year Ended June 30, 2016

Compliance Requirement		In Compliance		Questioned Costs	If no, provide details and management response.
		Yes	No		
A. Proposition A and Proposition C Local Return Funds					
1.	Timely use of funds.	X		None	
2.	Expenditures were approved before being incurred.	X		None	
3.	Funds were used on approved projects only and expenditures were supported and allowable per Guidelines.		X	PALRF: \$38,388 PCLRF: \$36,268	See Finding No. 2016-001 on the Schedule of Findings and Questionned Costs.
4.	Expenditures did not exceed 25% of Metro's approved budget.	X		None	
5.	Administrative expenses were within the 20% cap.		X	PCLRF: \$7,029	See Finding No. 2016-002 on the Schedule of Findings and Questioned Costs.
6.	All on-going and carryover projects were reported in Form B.	X		None	
7.	Annual Project Summary Report (Form B) was submitted on time.	X		None	
8.	Annual Expenditure Report (Form C) and listing of Recreational Transit Services, if applicable, were submitted on time.		X	None	See Finding No. 2016-003 on the Schedule of Findings and Questioned Costs.
9.	Cash or cash equivalents were maintained.	X		None	
10.	Accounting procedures, record keeping and documentation were adequate.		X	None	See Finding No. 2016-004 on the Schedule of Findings and Questioned Costs.
11.	Revenues received including allocations, project generated revenues, and interest income were properly credited to the PALRF and PCLRF accounts.	X		None	

CITY OF HAWAIIAN GARDENS
COMPLIANCE MATRIX
Year Ended June 30, 2016
(Continued)

Compliance Requirement		In Compliance		Questioned Costs	If no, provide details and management response.
		Yes	No		
B. Measure R Local Return Fund					
1.	Timely use of funds.	X		None	
2.	Expenditures were approved before being incurred.	X		None	
3.	Funds were used on approved projects only and expenditures were supported and allowable per Guidelines.	X		None	
4.	Fund were not substituted for property tax.	X		None	
5.	Administrative expenses were within the 20% cap.	X		None	
6.	Expenditure Plan (Form One) was submitted on time.	X		None	
7.	Expenditure Report (Form Two) was submitted on time.		X	None	See Finding No. 2016-005 on the Schedule of Findings and Questioned Costs.
8.	Cash or cash equivalents were maintained.	X		None	
9.	Accounting procedures, record keeping and documentation were adequate.	X		None	
10.	Revenues received including allocations, project generated revenues, and interest income were properly credited to the Measure R account.	X		None	
11.	Funds were not used to supplant existing local revenues being used for transportation purpose.	X		None	

CITY OF HAWAIIAN GARDENS
COMPLIANCE MATRIX
Year Ended June 30, 2016
(Continued)

Compliance Requirement		In Compliance		Questioned Costs	If no, provide details and management response.
		Yes	No		
C. Transportation Development Act Article 3 Fund					
1.	Timely use of funds.	X		None	
2.	Expenditures were incurred for activities relating to pedestrian and bicycle facilities and amenities.	X		None	

CITY OF HAWAIIAN GARDENS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2016

PALRF and PCLRF: Finding No. 2016-001

Compliance Reference	<p>According to Proposition A and 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 the jurisdictions’ responsibility to maintain proper accounting records and documentation to facilitate the performance of audit prescribed in the guidelines. “ In addition, LACMTA Local Return Program Manager issued a memo dated April 29, 2014 to jurisdiction to provide recommendations to ensure that jurisdictions have adequate evidence to support its compliance with the Local Returns 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 of 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>(b) A Federal award and non-Federal award.</p> <p>(5) Personnel activity reports or equivalent documentation must meet the following standards:</p> <p>(b) They must reflect an after the fact distribution of the actual activity of each employee,</p> <p>(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 distribution 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 at least quarterly, if necessary, to reflect changed circumstances.”</p>
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CITY OF HAWAIIAN GARDENS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2016

(Continued)

PALRF and PCLRF: Finding No. 2016-001 (Continued)

Condition	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 to Administration Project Code 480-02 amounting to \$38,388 for Proposition A and Administration Project Code 480-03 amounting to \$36,268 for Proposition C were based on distribution percentages determined before the services were performed rather than employee's actual working hours spent for the Proposition A and C projects. The City provided us with the payroll register and the time sheets; however, it did not adequately support the actual hours or payroll expenditures charged to the project.
Cause	The City stated that it was not aware that its practice of allocating salaries and benefits to a project was not adequate support for labor costs claimed.
Effect	The payroll cost 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 \$38,388 and \$36,268 for PALRF and PCLRF, respectively.
Recommendation	In accordance with the Guidelines, we recommend that the City reimburse its Proposition A and C Local Return Funds accounts by \$38,388 and \$36,268, respectively. In addition, we recommend that the City revise its current labor costs reporting procedures to ensure that labor costs charged to the Local Return Funds are adequately supported by time sheets or similar documentation which includes employees' actual working hours.
Management's Response	Management is currently reviewing the process of establishing the percentage allocations for employee services within each project. The current method has been to estimate the amount of time to be allocated to each project. The City will be establishing a quarterly review with employees providing signed documentation on the time spent on each project.

CITY OF HAWAIIAN GARDENS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2016

(Continued)

PCLRF: Finding No. 2016-002

Compliance Reference	According to Proposition A and 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 or Local Return funds received in fund exchanges;”
Condition	The City’s administrative expenditures exceeded more than twenty percent of its total Proposition C Local Return Fund annual expenditures in the amount of \$7,029. The amount of \$7,029 represents the excess over 20 percent of the Proposition C total Local Return annual expenditures.
Cause	The City was not able to monitor its administrative expenses to determine that the they did not exceed 20 percent of its total PCLRF expenditures due to limited staffing.
Effect	The City’s PCLRF Administration project expenditures exceeded 20 percent of its Proposition C Local Return annual expenditures. Therefore, the City did not comply with the Guidelines. The total questioned costs is \$7,029.
Recommendation	We recommend that the City reimburse its PCLRF in the amounts of \$7,029. Furthermore, we recommend the City to establish procedures to ensure that administrative expenditures are within the 20 percent cap of the PCLRF’s total expenditures.
Management’s Response	The staffing changes and limited staffing required staff to focus on other areas and the review of this limit was not done prior to the end of fiscal year 2015-16. However, the City management will monitor the expenditures more closely during the current fiscal year in order to ensure compliance.

CITY OF HAWAIIAN GARDENS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2016

(Continued)

PALRF and PCLRF: Finding No. 2016-003

Compliance Reference	According to Proposition A and C Local Return Guidelines, Section I-C “On or before October 15 th of each fiscal year, the Jurisdictions shall submit an Annual Expenditure Report to provide an update on previous year Local Return fund receipts and expenditures.”
Condition	The City did not meet the October 15, 2016 deadline for submission of Annual Expenditure Report (Form C). The City subsequently submitted the Form C on October 31, 2016.
Cause	The City was not able to complete the form on time for its submission to LACMTA due to insufficient staffing during a transitional period.
Effect	The City’s Form C was not submitted timely.
Recommendation	We recommend that the City establish procedures to ensure that the Form C (Expenditure Report) 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 on a timely manner.
Management’s Response	The Finance Director took on the City Manager responsibilities when the City Manager resigned and this resulted in some items being missed, including the submission of the form. When the form was submitted to LACMTA, the City encountered some difficulties with the emails not going through. The City faxed the forms, instead.

CITY OF HAWAIIAN GARDENS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2016

(Continued)

All Local Return Funds: Finding No. 2016-004

Compliance Reference	Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions and handling any related assets. No one individual should control all key aspects of a transaction or event.
Condition	There is a lack of separation of duties in a) Payroll – The same employee enters and updates employee information in the payroll system; processes payroll; and records payroll transactions; b) Cash Disbursements – The same employee processes invoices for payments; records disbursements; prepares checks; and places the checks in the envelopes and handles mailing.
Cause	The City does not have enough budget to employ additional employees.
Effect	There is a potential for higher risk of erroneous, fraudulent or unauthorized transactions and/or payments.
Recommendation	<p>We recommend the City a) separate the duties of initial entering and updating of employee information from the payroll processing b) separate the duties for processing voucher packages, record disbursements in the general ledger, preparing and mailing checks</p> <p>To the extent possible, duties should be segregated to serve as checks and balances on the employees' integrity and maintain the best internal control system possible. Adequate segregation of duties helps prevent one person from falsifying accounting documentation and preparing a payment for the misuse of funds.</p>

CITY OF HAWAIIAN GARDENS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2016

(Continued)

All Local Return Funds: Finding No. 2016-004 (Continued)

Management's Response	<p>Payroll – Currently, the Accountant prepares the payroll and enters all changes to the employee files within the system. At year end, a review was done of all employee rates to verify that they were accurately entered. There is no exception report available in the Fund Balance system, but the City staff is working to develop one that will allow the City to use a change report to confirm updates. In addition, now that a Human Resource (HR) Manager was hired, the City is developing a plan to have the HR Department enter all changes to employee records. The HR department will enter the changes and Accountant will verify those changes against the documents forwarded to payroll. The staff size will continue to make segregating duties difficult, but the City staff will continue to look for ways to provide more segregation and to place points of review and reconciliation that will improve the ability to prevent fraud. By using the Staff Assistant (SA) and with the hiring of another Accountant, the City will be able to make some substantial changes to provide additional segregation and control points. Consideration of risk versus cost, must also be considered as these procedures are reviewed.</p> <p>Cash Disbursement – The Senior Account Specialist has been the person to enter invoices, print checks and distribute those checks, either to individuals or via mail. Currently, there are reviews and controls in place to detect fraud and these procedures are being reviewed to improve the controls to prevent and reduce the risk of fraudulent activities in the area of Cash Disbursements. The current procedure provides that all invoices are to be approved by department heads and/or City Manager according to defined spending levels. Once invoices are entered and checks are processed, the Finance Director reviews the issued checks and confirms the supporting documents contain this approval. These reviews provide opportunity to identify any fraudulent payments. In addition, recent procedure change has a SA distributing the checks once they are prepared. The SA reviews the checks and supporting documents and then, mails or issues checks to individuals. The check copy packages are returned to the Finance Director for a final review.</p>
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CITY OF HAWAIIAN GARDENS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2016

(Continued)

MRLRF: Finding No. 2016-005

Compliance Reference	According to Measure R Guidelines, Section B (II.2), "Jurisdictions shall submit a Form Two, to LACMTA annually, by October 15th (following the conclusion of the fiscal year)."
Condition	The City did not meet the October 15, 2016 deadline for submission of Expenditure Report Form Two to LACMTA. The City subsequently submitted the Form Two on October 31, 2016.
Cause	The City was not able to complete the form on time for its submission to LACMTA due to insufficient staffing during a transitional period.
Effect	The City's Form Two was not submitted timely.
Recommendation	We recommend that the City establish procedures to ensure that the Form Two (Expenditure Report) 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 on a timely manner.
Management's Response	The Finance Director took on the City Manager responsibilities when the City Manager resigned and this resulted in some items being missed, including the submission of the form. When the form was submitted to LACMTA, the City encountered some difficulties with the emails not going through. The City faxed the forms, instead.

EXIT CONFERENCE

CITY OF HAWAIIAN GARDENS

**PROPOSITION A, PROPOSITION C, MEASURE R LOCAL RETURN FUNDS, AND
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND**

EXIT CONFERENCE

June 30, 2016

An exit conference was held on December 21, 2016 via telephone conference. Those in attendance were:

Simpson & Simpson Representative:

Elizabeth Mendoza, Senior Auditor

City's Representative:

Linda Hollinsworth, Finance Director/Interim City Manager

Matters Discussed:

Results of the audit disclosed one (1) material weakness, one (1) significant control deficiency and five (5) non-compliance issues with LACMTA's Guidelines.

A copy of this report was forwarded to the following City representative(s) for their comments prior to the issuance of the final report:

Linda Hollinsworth, Finance Director/Interim City Manager