

***CITY OF WEST COVINA
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 WEST COVINA
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FINANCIAL SECTION



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Independent Auditor's Report

To the Honorable Members of the City Council of the
City of West Covina, 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 West Covina, California (City) as of and for the year 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 of 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 West Covina, 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, before the financial statements of Measure R Local Return Fund were restated for the matter discussed in Note 9, were audited by other auditors, whose report, dated March 21, 2016, expressed an unmodified opinion on those 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 West Covina, California, as of June 30, 2016, and the changes in its financial position for the year then ended in accordance 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 West Covina, 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 November 10, 2016, on our consideration of the City of West Covina's 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
November 10, 2016

CITY OF WEST COVINA

PROPOSITION A LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and investments	\$ 486,864	\$ 605,820
Interest receivable	<u>300</u>	<u>227</u>
Total assets	\$ <u><u>487,164</u></u>	\$ <u><u>606,047</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ <u>1,880</u>	\$ <u>-</u>
Total liabilities	<u>1,880</u>	<u>-</u>
 FUND BALANCE		
Restricted	<u>485,284</u>	<u>606,047</u>
Total fund balance	<u>485,284</u>	<u>606,047</u>
Total liabilities and fund balance	\$ <u><u>487,164</u></u>	\$ <u><u>606,047</u></u>

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

CITY OF WEST COVINA

PROPOSITION A 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 A	\$ 1,946,323	\$ 1,896,711
Proposition A Discretionary Incentive Grant (Note 7)	100,420	-
Interest income	1,392	227
Other income	<u>3,224</u>	<u>-</u>
Total revenues	<u>2,051,359</u>	<u>1,896,938</u>
EXPENDITURES		
Various projects	<u>2,172,122</u>	<u>1,900,000</u>
Total expenditures	<u>2,172,122</u>	<u>1,900,000</u>
(Deficiency) of revenues over expenditures	(120,763)	(3,062)
Fund balance at beginning of year	<u>606,047</u>	<u>609,109</u>
Fund balance at end of year	\$ <u><u>485,284</u></u>	\$ <u><u>606,047</u></u>

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

CITY OF WEST COVINA

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 Favorable (Unfavorable)	2015 Actual
		Metro Budget	Actual		
160-02	Bus Shelters	\$ 20,000	\$ 20,000	\$ -	\$ -
200-01	Purchase of Buses - Fixed Route	265,000	214,474	50,526	-
270-06	Transportation Planning SGVCOG	30,000	31,200	(1,200)	30,000
300-02	Accessibility Ramp at Transit Provider Office	10,000	6,448	3,552	-
405-04	Fund Exchange with City of Industry	-	-	-	1,870,000
405-05	Fund Exchange with City of Hawaiian Gardens	500,000	350,000	150,000	-
405-06	Fund Exchange with City of West Hollywood	1,550,000	1,550,000	-	-
405-07	Fund Exchange with Foothill Transit	1,781,155	-	1,781,155	-
	Total expenditures	<u>\$ 4,156,155</u>	<u>\$ 2,172,122</u>	<u>\$ 1,984,033</u>	<u>\$ 1,900,000</u>

See accompanying independent auditor's report.

CITY OF WEST COVINA
PROPOSITION A 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>
April 1992	HP Laser Jet Printer	\$ 1,920	\$ -	\$ 1,920	\$ -
June 1992	486 PC Computer	850	-	850	-
June 1992	486 PC Computer	850	-	850	-
May 2001	Dell Pentium III Computer	3,921	-	3,921	-
April 2004	Thomas Bus SLF200	316,691	-	-	316,691
April 2004	Thomas Bus SLF200	171,878	61,431	-	233,309
June 2005	Harrington Leather Executive Chair	86	-	86	-
July 2005	Dell 5100CN Color Laser Printer	104	-	104	-
June 2016	El Dorado Elite 320 White Shuttle Bus	-	106,297	-	106,297
June 2016	El Dorado Elite 320 White Shuttle Bus	-	106,297	-	106,297
Total		\$ <u>496,300</u>	\$ <u>274,025</u>	\$ <u>7,731</u>	\$ <u>762,594</u>

See accompanying independent auditor's report.

CITY OF WEST COVINA

PROPOSITION C LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and investments	\$ 1,184,423	\$ 839,545
Interest receivable	<u>727</u>	<u>225</u>
Total assets	\$ <u>1,185,150</u>	\$ <u>839,770</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 139,838	\$ 150,102
Accrued payroll	<u>5,526</u>	<u>8,920</u>
Total liabilities	<u>145,364</u>	<u>159,022</u>
Fund Balance		
Restricted	<u>1,039,786</u>	<u>680,748</u>
Total fund balance	<u>1,039,786</u>	<u>680,748</u>
Total liabilities and fund balance	\$ <u>1,185,150</u>	\$ <u>839,770</u>

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

CITY OF WEST COVINA

PROPOSITION C LOCAL RETURN FUND

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

For the Fiscal Years Ended June 30

	2016	2015
REVENUES		
Proposition C	\$ 1,617,352	\$ 1,576,738
Interest income	6,156	1,810
Other income	1,200	-
Total revenues	<u>1,624,708</u>	<u>1,578,548</u>
EXPENDITURES		
Various projects	<u>1,265,670</u>	<u>1,651,851</u>
Total expenditures	<u>1,265,670</u>	<u>1,651,851</u>
Excess (deficiency) of revenues over expenditures	359,038	(73,303)
Fund balance at beginning of year	<u>680,748</u>	<u>754,051</u>
Fund balance at end of year	<u><u>\$ 1,039,786</u></u>	<u><u>\$ 680,748</u></u>

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

CITY OF WEST COVINA

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 Favorable (Unfavorable)	2015 Actual
		Metro Budget	Actual		
110-03	West Covina Shuttle	\$ 177,120	\$ 139,200	\$ 37,920	\$ 161,472
110-05	West Covina Shuttle - Green Line (Supplemental)	240,000	280,509	(40,509)	264,669
130-01	Elderly and Disabled Dial-A-Ride	140,800	141,837	(1,037)	151,868
140-04	Recreation Event Transit	80,000	70,033	9,967	67,943
160-01	Bus Shelters	74,500	60,525	13,975	-
170-02	Bus Shelter Maintenance	-	-	-	66,399
200-01	Purchase of Buses - Fixed Route	1	-	1	-
270-05	Transportation Planning	136,510	120,215	16,295	127,782
270-07	Geographical Information System - Design of Glendora Avenue	460,000	37,233	422,767	-
280-01	Transit Marketing Services	2,200	-	2,200	4,832
300-01	Paving the City Yard Along Bus Travel Way	50,000	2,500	47,500	-
420-01	General Plan Circulation Element	86,630	31,332	55,298	113,370
440-01	Bridge Repairs	-	-	-	20,000
440-14	Street Rehabilitation - Major Streets	-	-	-	274,842
440-15	Street Rehabilitation - Major Streets	1	-	1	-
450-01	Francisquito/Sunset Left Turn	25,000	5,672	19,328	-
460-13	Traffic Controllers and Cabinet Upgrades	74,459	-	74,459	-
470-01	Pavement Management System	85,000	56,440	28,560	-
470-06	Pavement Management System	178,687	119,924	58,763	119,024
480-01	Administration	244,269	200,250	44,019	279,650
	Total expenditures	<u>\$ 2,055,177</u>	<u>\$ 1,265,670</u>	<u>\$ 789,507</u>	<u>\$ 1,651,851</u>

See accompanying independent auditor's report.

CITY OF WEST COVINA

PROPOSITION C LOCAL RETURN FUND

**SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS**

June 30, 2016

Date		Balance			Balance
Acquired	Description	7/1/2015	Additions	Deletions	6/30/2016
Jan 1995	4 Ford Taurus GL	\$ 64,088	\$ -	\$ 64,088	\$ -
Apr 1995	Dell Computer	2,427	-	2,427	-
Feb 1995	Dell Computer	3,386	-	3,386	-
Apr 2001	Dell Pentium III Computer	3,201	-	3,201	-
May 2001	Dell Pentium III Computer	3,474	-	3,474	-
Apr 2004	Harrington Leather Executive Chair	22	-	22	-
Jun 2005	Laser Jet Printer and USB Cable	23	-	23	-
Jun 2005	Thomas Bus SLF200	21,955	61,428	-	83,383
Total		\$ 98,576	\$ 61,428	\$ 76,621	\$ 83,383

See accompanying independent auditor's report.

CITY OF WEST COVINA

MEASURE R LOCAL RETURN FUND

BALANCE SHEETS

JUNE 30

	<u>2016</u>	<u>2015</u> as restated
ASSETS		
Cash and investments	\$ 922,540	\$ 799,135
Interest receivable	<u>567</u>	<u>299</u>
Total assets	<u>\$ 923,107</u>	<u>\$ 799,434</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 66,340	\$ 102,903
Accrued payroll	<u>940</u>	<u>2,673</u>
Total liabilities	<u>67,280</u>	<u>105,576</u>
Fund Balance		
Restricted	<u>855,827</u>	<u>693,858</u>
Total fund balance	<u>855,827</u>	<u>693,858</u>
Total liabilities and fund balance	<u>\$ 923,107</u>	<u>\$ 799,434</u>

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

CITY OF WEST COVINA

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> as restated
REVENUES		
Measure R	\$ 1,211,550	\$ 1,180,222
Interest income	<u>6,062</u>	<u>1,486</u>
Total revenues	<u>1,217,612</u>	<u>1,181,708</u>
EXPENDITURES		
Various projects	<u>1,055,643</u>	<u>967,080</u>
Total expenditures	<u>1,055,643</u>	<u>967,080</u>
Excess of revenues over expenditures	161,969	214,628
Fund balance at beginning of year	<u>693,858</u>	<u>479,230</u>
Fund balance at end of year	\$ <u><u>855,827</u></u>	\$ <u><u>693,858</u></u>

The accompanying notes are an integral part of the financial statements

CITY OF WEST COVINA

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			2015 Actual as restated
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
1.05	SP15106 Street Rehabilitation Major Streets	\$ 533,000	\$ 272,228	\$ 260,772	\$ 40,851
1.05	SP16002 Street Rehabilitation Major Streets	200,000	181,450	18,550	-
1.05	SP13110 Street Rehabilitation - Amar Road	106,505	-	106,505	-
2.03	Traffic Signal Repairs & Maintenance	15,000	6,642	8,358	-
4.20	West Covina Shuttle (Fixed Route)	285,000	249,752	35,248	-
4.35	Dial-A-Ride	250,000	250,000	-	257,409
5.05	SP16033 Bus Stop Enhancement Program	16,000	5,471	10,529	-
7.90	Other Planning, Engineering or CMP	50,000	-	50,000	-
8.10	Fund Administration	124,150	90,100	34,050	131,823
01-004	SP13105 Street Rehabilitation Major Streets	-	-	-	3,202
01-006	SP14108 Street Rehabilitation Major Streets	-	-	-	314,684
04-002	Corridor Shuttle (Fixed Route)	-	-	-	219,111
	Total expenditures	\$ 1,579,655	\$ 1,055,643	\$ 524,012	\$ 967,080

See accompanying independent auditor's report.

CITY OF WEST COVINA

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 WEST COVINA

**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 LACMTA	\$ <u>86,389</u>	\$ <u>-</u>
Total assets	\$ <u><u>86,389</u></u>	\$ <u><u>-</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Cash Overdraft	\$ 74,704	\$ 2,036
Accounts payable	3,660	-
Due to LACMTA	8,025	-
Accrued payroll	<u>-</u>	<u>259</u>
Total liabilities	<u>86,389</u>	<u>2,295</u>
 Fund Balance		
Restricted	<u>-</u>	<u>(2,295)</u>
Total fund balance	<u>-</u>	<u>(2,295)</u>
 Total liabilities and fund balance	\$ <u><u>86,389</u></u>	\$ <u><u>-</u></u>

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

CITY OF WEST COVINA

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 reserves	\$ <u>78,364</u>	\$ <u>-</u>
Total revenues	<u>78,364</u>	<u>-</u>
Expenditures		
Construction/Maintenance	<u>76,069</u>	<u>2,295</u>
Total expenditures	<u>76,069</u>	<u>2,295</u>
Excess (deficiency) of revenues over expenditures	2,295	(2,295)
Fund balance at beginning of year	<u>(2,295)</u>	<u>-</u>
Fund balance at end of year	\$ <u><u>-</u></u>	\$ <u><u>(2,295)</u></u>

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

CITY OF WEST COVINA

**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					
Sidewalk Repair at Various Locations - Citywide	2015-16	\$ 78,364	\$ 76,069	\$ 2,295	On-going
		<u> </u>	<u> </u>	<u> </u>	
Total		\$ <u>78,364</u>	\$ <u>76,069</u>	2,295	
Fund balance at beginning of Year				<u>(2,295)</u>	
Fund balance at end of Year				\$ <u>-</u>	

See accompanying independent auditor's report.

CITY OF WEST COVINA

**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 WEST COVINA

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, and the Los Angeles County Metropolitan Transportation Authority Funding and Allocation Guidelines for Transportation Development Act Article 3 Bicycle and Pedestrian Funds.

CITY OF WEST COVINA

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 DISCRETIONARY INCENTIVE GRANTS – PALRF

The City entered into various Memorandum of Understanding (MOU) agreements with the Los Angeles County Metropolitan Transportation Authority (Metro) to receive Proposition A discretionary incentive grants for participating in the Consolidated National Transit Database (NTD) Voluntary Reporting. The amounts received for the years ended June 30, 2016 and 2015 consisted of the following:

<u>Agreement Date</u>	<u>Period</u>	<u>NTD Voluntary Reporting</u>	<u>MOU Amount</u>	<u>Amount Received</u>	
				<u>2016</u>	<u>2015</u>
September 14, 2015	7/1/14 – 6/30/16	FY 2012-13	\$ 100,420	\$ 100,420	\$ -
Total				\$ 100,420	\$ -

The Proposition A discretionary incentive grants were recorded under PALRF.

CITY OF WEST COVINA

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

NOTE 8 – PROPOSITION A FUND EXCHANGE - PALRF

In fiscal year 2015-16, the City entered into an agreement on August 18, 2015 with the City of Hawaiian Gardens to exchange \$1 of Proposition A local return funds for every \$.75 (or 75 cents) of General Fund. Accordingly, the City received \$262,500 of the City of Hawaiian Gardens General Funds on September 24, 2015 and assigned \$350,000 of its Proposition A Local Return Funds to the City of Hawaiian Gardens on October 1, 2015.

In fiscal year 2015-16, the City entered into an agreement on August 19, 2015 with the City of West Hollywood to exchange \$1 of Proposition A local return funds for every \$.70 (or 70 cents) of General Fund. Accordingly, the City received \$ 1,085,000 of the City of West Hollywood's General Funds on September 18, 2015 and assigned \$ 1,550,000 of its Proposition A Local Return Funds to the City of West Hollywood on October 1, 2015.

In fiscal year 2014-15, the City entered into an agreement with the City of Industry to exchange \$1 of Proposition A local return funds for every \$.75 (or 75 cents) of General Fund. Accordingly, the City received \$1,402,500 of the City of Industry's General Funds and assigned \$ 1,870,000 of its Proposition A Local Return Funds to the City of Industry.

NOTE 9 – RESTATEMENT OF MRLRF'S 2015 FINANCIAL STATEMENTS

The fiscal year 2014-15 financial statements of MRLRF were restated to report certain expenditures for the City's Project Code 01-007, SP15106 Street Rehabilitation – Major Streets that was not previously recorded.

	Accounts payable	Expenditures	Fund balance
Balance, as previously reported	\$ 79,052	\$ 943,229	\$ 717,709
Adjustment	23,851	23,851	(23,851)
Balance, as restated	\$ 102,903	\$ 967,080	\$ 693,858

NOTE 10 – TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND ALLOCATION

The revenue allocation for the years ended June 30, 2016 and 2015 consisted of the following:

	2016	2015
FY 2013-14 allocation	\$ 78,364	\$ -
Total	\$ 78,364	\$ -

CITY OF WEST COVINA

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

NOTE 11 – TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND 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 2013-14 allocation	\$ 8,025	\$ 86,389
FY 2014-15 allocation	70,774	70,774
FY 2015-16 allocation	68,702	-
Available reserve balance	<u>\$ 147,501</u>	<u>\$ 157,163</u>

NOTE 12– SUBSEQUENT EVENTS

The City has evaluated events or transactions that occurred subsequent to June 30, 2016 through November 10, 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
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**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 West Covina, 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 (TDAA3F) Fund of the City of West Covina, 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 November 10, 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
November 10, 2016

COMPLIANCE SECTION



SIMPSON & SIMPSON
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Independent Auditor's Report On Compliance

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

Report on Compliance

We have audited the compliance of the City of West Covina, California (City) with the Proposition A and Proposition C Local Return Guidelines, Measure R Local Return Guidelines, and the Los Angeles County Metropolitan Transportation Authority's Funding and Allocation Guidelines for the Transportation Development Act Article 3 Bicycle and Pedestrian Funds (collectively, the 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 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 West Covina 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 (TDAA3F) Fund for the year ended June 30, 2016.

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 and 2016-003. 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 West Covina 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 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. 2016-003 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.

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

Los Angeles, California
November 10, 2016

CITY OF WEST COVINA
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	PCLRF: \$312,345	See Finding No. 2016-001 on the Schedule of Findings and Questioned Costs.
4.	Expenditures did not exceed 25% of Metro's approved budget.	X			
5.	Administrative expenses were within the 20% cap.	X		None	
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	
9.	Cash or cash equivalents were maintained.	X		None	
10.	Accounting procedures, record keeping and documentation were adequate.		X	None	See Finding No. 2016-002 on the Schedule of Findings and Recommendations.
11.	Revenues received including allocations, project generated revenues, and interest income were properly credited to the PALRF and PCLRF accounts.	X		None	

CITY OF WEST COVINA
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	\$51,455	See Finding No. 2016-003 on the Schedule of Findings and Questioned Costs.
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	
8.	Cash or cash equivalents were maintained.	X		None	
9.	Accounting procedures, record keeping and documentation were adequate.		X	None	See Finding No. 2016-002 on the Schedule of Findings and Questioned Costs.
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 WEST COVINA
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 WEST COVINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2016

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 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>(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 WEST COVINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2016

(Continued)

PCLRF: Finding No. 2016-001 (Continued)

Condition	To support the propriety of expenditures being charged to Proposition 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 Transportation Planning Project Code 270-05 amounting to \$120,215, Pavement Management Project Code 470-06 amounting to \$96,286, and Administration Project Code 480-01 in the amount of \$95,844 were based on distribution percentages determined before the services were performed. In addition, there were several timesheets, and/or leave requests that were not approved by the supervisor.
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. Furthermore, the new cost allocation plan was delayed for numerous reasons: 1) The City attempted to hire a consultant to prepare a new cost allocation plan in July 2014, but was unable to settle on a contract with the vendor; 2) The Finance Director at the time then left the City and a new one was not hired until April 15; and 3) in July 2015, the new Finance Director got direction from the City Council to issue a new Request for Proposal (RFP) and continue with the project.
Effect	The cost claimed under the Proposition C Local Return Fund project may include expenditures which may not be an allowable Proposition C project expenditure. This resulted in questioned costs of \$312,345.
Recommendation	In accordance with the Guidelines, we recommend that the City reimburse its Proposition C Local Return Fund account by \$312,345. 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	This compliance issue was not previously presented to the City and the City's practice has been consistent for numerous years. Since receiving the letter in April 2014, which is mentioned in the Compliance Reference section, City staff issued a RFP to hire a consultant to develop a new cost allocation plan for the City. The contract was awarded in September 2015 and the plan was completed in time to be incorporation in FY 2016-17 budget. As a result of another audit finding, staff is now tracking their time on timesheets as oppose to being allocated automatically in payroll. In June 2016, Finance staff conducted a timesheet audit and has incorporated proper internal controls to ensure approved timesheet are submitted to Finance. All of these issues have been resolved moving forward, but the recommendation to return \$312,345 would be a hardship on the City.

CITY OF WEST COVINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2016

(Continued)

All Local Return Funds: Finding No. 2016-002

Compliance Reference	According to Proposition A & C Local Return Guidelines, Section V and Measure R Local Return Guidelines, Section VII "It is the jurisdictions' responsibility to maintain proper accounting records and documentation to facilitate the performance of the audit prescribed in these guidelines..." In addition, Government Auditing Standards Section 5.26 lists examples of matters that may be reportable conditions: "e.g.: evidence of failure to perform tasks that are part of internal control, such as reconciliations not prepared or not timely prepared." Good internal controls require that cash be reconciled at least monthly and material reconciling items be properly supported."
Condition	During our review of the June 30, 2016 bank reconciliation, we noted that the bank balance and accounting records had an unreconciling difference of \$93,951. Therefore, the bank reconciliation was not prepared properly and may not reflect the actual City-wide cash account balance at June 30, 2016.
Cause	In 2014, the Finance Department lost most of their Accounting staff due to retirement and attrition. It was not until mid-2015 that most of the Accounting positions were permanently filled. This caused delays in performing the bank reconciliations.
Effect	The cash balance cannot be validated at June 30, 2016. Without a June 30, 2016 reconciliation of cash, there is a high risk of errors.
Recommendation	In accordance with the Guidelines, we recommend the City establish procedures and controls to ensure all bank reconciliations are properly performed and supported on a timely basis. In addition, we recommend the City to ensure that the individual(s) responsible for reconciling the bank balance to the general ledger cash balance have adequate training and knowledge of bank reconciliations.
Management's Response	The City Acknowledges the importance of bank reconciliations that are completed, reviewed and approved timely. A new and improved bank reconciliation format is in place and is reviewed upon completion by the Accounting Manager. While staff has prepared the bank reconciliation for the general account through June 2016, there are variances that still need to be reconciled. On October 17, 2016, the consultant that is familiar with the software and who last reconciled the general checking account provided training to the Accountants to help resolve the remaining variances. It is anticipated that the bank reconciliations will be completed and timely for the FY 2016-17 audit.

CITY OF WEST COVINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2016

(Continued)

MRLRF: Finding No. 2016-003

Compliance Reference	<p>According to Measure R Local Return Guidelines, Section I, “The Measure R Ordinance specifies that Local Return funds are to be used for transportation purposes. No net revenue distributed to Jurisdictions may be used for purposes other than transportation purposes.” and Section VII “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 WEST COVINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2016

(Continued)

MRLRF: Finding No. 2016-003 (Continued)

Condition	To support the propriety of expenditures being charged to Measure R 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 SP15106 Street Rehabilitation Project Code 1.05 and Fund Administration Project Code 8.10 in the amounts of \$5,995 and \$45,460, respectively, were based on distribution percentages determined before the services were performed.
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. Furthermore, the new cost allocation plan was delayed for numerous reasons: 1) The City attempted to hire a consultant to prepare a new cost allocation plan in July 2014, but was unable to settle on a contract with the vendor; 2) The Finance Director at the time then left the City and a new one was not hired until April 15; and 3) in July 2015, the new Finance Director got direction from the City Council to issue a new Request for Proposal (RFP) and continue with the project.
Effect	The cost claimed under the Measure R Local Return Fund project may include expenditures which may not be an allowable Measure R project expenditure. This resulted in questioned costs of \$51,455.
Recommendation	In accordance with the Guidelines, we recommend that the City reimburse its Measure R Local Return Fund account by \$51,455. 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.
Management's Response	This compliance issue was not previously presented to the City and the City's practice has been consistent for numerous years. Since receiving the letter in April 2014, which is mentioned in the Compliance Reference section, City staff issued a RFP to hire a consultant to develop a new cost allocation plan for the City. The contract was awarded in September 2015 and the plan was completed in time to be incorporation in FY 2016-17 budget. As a result of another audit finding, staff is now tracking their time on timesheets as oppose to being allocated automatically in payroll. In June 2016, Finance staff conducted a timesheet audit and has incorporated proper internal controls to ensure approved timesheet are submitted to Finance. All of these issues have been resolved moving forward, but the recommendation to return \$51,455 would be a hardship on the City.

EXIT CONFERENCE

CITY OF WEST COVINA

**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 with the via telephone conference. Those in attendance were:

Simpson & Simpson Representative:

Elizabeth Mendoza – Senior Auditor

City's Representative:

Nicole Lugotoff – Accounting Manager

Christa Buhagiar - Finance Director

Matters Discussed:

Results of the audit disclosed one (1) material weakness, one (1) significant control deficiencies and three (3) 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:

Nicole Lugotoff – Accounting Manager

Christa Buhagiar - Finance Director

Simpson & Simpson, LLP
633 West 5th Street, Suite 3320
Los Angeles, CA 90071

RE: CITY OF WEST COVINA ANNUAL FINANCIAL REPORT OF THE PROPOSITION A LOCAL RETURN FUND, PROPOSITION C LOCAL RETURN FUND, MEASURE R LOCAL RETURN FUND, AND TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

I have received the annual financial report of the Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, and Transportation Development Act Article 3 Fund for the years ended June 30, 2016 and 2015 for the City of West Covina and agree with the contents of the report except as indicated below:

(Attach additional pages if necessary)

Very truly yours,

Name

Title

Date