



MetroTM

**City of El Segundo
Annual Financial Report of its**

**Proposition A Local Return Fund
Proposition C Local Return Fund
Measure R Local Return Fund
Transportation Development Act Article 3 Fund**

**As of and the Years Ended September 30, 2015 and 2014
with Report of Independent Auditors**

An Independently Owned Member
McGLADREY ALLIANCE



 **Vasquez**
& Company LLP
Certified Public Accountants and Business Consultants

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FINANCIAL SECTION

Report of Independent Auditors

**To the Honorable Members of the City Council of the
City of El Segundo, 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, Proposition C Local Return Fund, Measure R Local Return Fund and the Transportation Development Act Article 3 Fund (collectively, the Funds), of the City of El Segundo, California (the City) which comprise the Funds' balance sheets as of September 30, 2015 and 2014, and the related statements of revenues, expenditures and changes in fund balance for the years then ended, and the related notes to the financial statements.

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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 audits 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.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Transportation Development Act Article 3 Fund of the City of El Segundo, California, as of September 30, 2015 and 2014, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Transportation Development Act Article 3 Fund of the City and do not purport to, and do not present fairly the financial position of the City as of September 30, 2015 and 2014, and the changes in its financial position for the years 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 audits were conducted for the purpose of forming opinions on each of the Funds' financial statements as a whole. The supplementary information identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information identified in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the Funds' basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Funds' basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Funds' basic financial statements or to the Funds' basic 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 each of the Funds' basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2016 on our consideration of the City'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, and 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 "Vaqueria & Company LLP".

Los Angeles, California
April 28, 2016

**City of El Segundo
 Proposition A Local Return Fund
 Balance Sheets**

		September 30	
		2015	2014
ASSETS			
Cash and investments	\$	413,468	\$ 337,990
Total assets	\$	413,468	\$ 337,990
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	6,261	\$ 8,162
Accrued liabilities		3,513	4,362
Total liabilities		9,774	12,524
Fund balance			
Restricted		403,694	325,466
Total fund balance		403,694	325,466
Total liabilities and fund balance	\$	413,468	\$ 337,990

See notes to financial statements.

City of El Segundo
Proposition A Local Return Fund
Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended September 30	
	2015	2014
Revenues		
Proposition A	\$ 299,781	\$ 287,380
Investment income	4,671	3,079
Project generated revenue	3,350	725
Reimbursement from Torrance MAX	-	21,281
Total revenues	307,802	312,465
Expenditures		
Various projects	229,574	272,709
Total expenditures	229,574	272,709
Excess of revenues over expenditures	78,228	39,756
Fund balance at beginning of year	325,466	285,710
Fund balance at end of year	\$ 403,694	\$ 325,466

See notes to financial statements.

City of El Segundo
Proposition A Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended September 30, 2015
Actual for 2014

Project Code	Project Name	2015			2014 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
110-01	Beach Shuttle	\$ 21,700	\$ 22,743	\$ (1,043)	\$ 32,222
120-03	Dial-A-Ride	204,300	176,005	28,295	188,918
140-02	Recreation Trips	25,600	16,988	8,612	24,016
180-01	Equipment Replacement Fund	19,725	-	19,725	-
250-05	MTA Pass Buy Down	4,000	4,085	(85)	2,825
480-04	Prop A Administration	38,100	9,753	28,347	24,728
Total expenditures		\$ 313,425	\$ 229,574	\$ 83,851	\$ 272,709

See report of independent auditors.

City of El Segundo
Proposition A Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended September 30, 2015

<u>Date Acquired</u>	<u>Description</u>	<u>Balance October 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2015</u>
1995	Mini Bus (Unit # 6474)	\$ 47,293	\$ -	\$ 47,293	\$ -
1997	Mini Bus (Unit # 6476)	22,133	-	-	22,133
2001	Computer	2,884	-	2,884	-
2003	Mini Bus (Unit # 6481)	63,783	-	-	63,783
2011	Mini Bus (Unit # 6480)	57,273	-	-	57,273
2011	Mini Bus (Unit # 6486)	57,273	-	-	57,273
Total		\$ 250,639	\$ -	\$ 50,177	\$ 200,462

See report of independent auditors.

**City of El Segundo
Proposition C Local Return Fund
Balance Sheets**

		September 30	
		2015	2014
ASSETS			
Cash and investments		\$ 575,038	\$ 513,616
	Total assets	\$ 575,038	\$ 513,616
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable		\$ 1,767	\$ 93,606
Accrued liabilities		1,402	2,428
Retention payable		2,795	4,397
	Total liabilities	5,964	100,431
Fund balance			
Restricted		569,074	413,185
	Total fund balance	569,074	413,185
	Total liabilities and fund balance	\$ 575,038	\$ 513,616

See notes to financial statements.

City of El Segundo
Proposition C Local Return Fund
Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended September 30	
	2015	2014
Revenues		
Proposition C	\$ 248,509	\$ 238,268
Investment income	6,254	4,010
Total revenues	254,763	242,278
Expenditures		
Various projects	98,874	170,632
Total expenditures	98,874	170,632
Excess of revenues over expenditures	155,889	71,646
Fund balance at beginning of year	413,185	341,539
Fund balance at end of year	\$ 569,074	\$ 413,185

See notes to financial statements.

City of El Segundo
Proposition C Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended September 30, 2015
Actual for 2014

Project Code	Project Name	2015			2014 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
110-03	Beach Cities Transit (BCT)	\$ 27,000	\$ 16,591	\$ 10,409	\$ 24,237
110-04	Lunchtime Shuttle	67,618	49,298	18,320	55,303
180-01	Equipment Replacement Fund	4,600	-	4,600	-
440-03	Arterial Streets Rehabilitation Program	120,000	32,048	87,952	87,952
480-07	Prop C Administration	21,729	937	20,792	3,140
Total expenditures		\$ 240,947	\$ 98,874	\$ 142,073	\$ 170,632

See report of independent auditors.

City of El Segundo
Proposition C Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended September 30, 2015

<u>Date Acquired</u>	<u>Description</u>	<u>Balance October 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2015</u>
2003	Mini Bus (Unit #6482)	\$ 64,417	\$ -	\$ -	\$ 64,417
	Total	<u>\$ 64,417</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,417</u>

See report of independent auditors.

**City of El Segundo
Measure R Local Return Fund
Balance Sheets**

		September 30	
		2015	2014
ASSETS			
Cash and investments	\$	617,431	\$ 625,988
Due from LACMTA		17,609	16,946
Total assets	\$	635,040	\$ 642,934
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	18,760	\$ 134,235
Contract retention payable		7,065	7,065
Total liabilities		25,825	141,300
Fund balance			
Restricted		609,215	501,634
Total fund balance		609,215	501,634
Total liabilities and fund balance	\$	635,040	\$ 642,934

See notes to financial statements.

City of El Segundo
Measure R Local Return Fund

Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended September 30	
	2015	2014
Revenues		
Measure R Local Return Fund	\$ 186,596	\$ 178,077
Investment income	6,515	891
Measure R Highway Program Grant	-	2,157,576
Total revenues	193,111	2,336,544
Expenditures		
Project expenditures funded by MRLRF	-	141,300
Project expenditures funded by Measure R Highway Program Grant	85,530	720,905
Total expenditures	85,530	862,205
Excess of revenues over expenditures	107,581	1,474,339
(Unassigned) fund balance at beginning of year	501,634	(972,705)
Fund balance at end of year	\$ 609,215	\$ 501,634

See notes to financial statements.

City of El Segundo
Measure R Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended September 30, 2015
Actual for 2014

Project Code	Project Name	2015			2014 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
01-001	Street Repair and Maintenance	\$ -	\$ -	\$ -	\$ 141,300
	Total expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 141,300</u>

See report of independent auditors.

**City of El Segundo
Measure R Local Return Fund
Schedule of Capital Assets**

<u>Date Acquired</u>	<u>Description</u>	<u>Balance October 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2015</u>
	None	\$ -	\$ -	\$ -	\$ -
	Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See report of independent auditors.

City of El Segundo
Transportation Development Act Article 3 Fund
Balance Sheets
Pursuant to Public Utilities Code Section 99234

		September 30	
		2015	2014
ASSETS			
Cash and investments	\$	58,642	\$ 10,655
Due from LACMTA		925	-
Total assets	\$	59,567	\$ 10,655
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	-	\$ -
Total liabilities		-	-
Fund balance			
Restricted		59,567	10,655
Total fund balance		59,567	10,655
Total liabilities and fund balance	\$	59,567	\$ 10,655

See notes to financial statements.

City of El Segundo
 Transportation Development Act Article 3 Fund
Statements of Revenues, Expenditures and Changes in Fund Balance
 Pursuant to Public Utilities Code Section 99234

	Years ended September 30	
	2015	2014
Revenues		
Intergovernmental Allocations:		
Article 3	\$ 59,324	\$ 9,850
Interest income	301	45
Total revenues	59,625	9,895
Expenditures		
Construction/Maintenance	-	-
Total expenditures	-	-
Excess of revenues over expenditures	59,625	9,895
Other financing use		
Funds returned to LACMTA	(10,713)	-
Excess of revenues over expenditures and other financing use	48,912	9,895
Fund balance at beginning of year	10,655	760
Fund balance at end of year	\$ 59,567	\$ 10,655

See notes to financial statements.

City of El Segundo
Transportation Development Act Article 3 Fund
Supplementary Information
Schedule of Transportation Development Act Allocation for Specific Projects
Pursuant to Public Utilities Code Section 99234
Year ended September 30, 2015

Project Description	Program Year	Totals to Date		Unexpended Allocations	Project Status
		Allocations	Expenditures		
Local Allocations:					
Bikeways Installation		\$ 59,324	\$ -	\$ 59,324	Ongoing
Totals		\$ 59,324	\$ -	59,324	
Unexpended interest accumulated to date				301	
Funds returned to LACMTA, interest included				(10,713)	
Fund balance at beginning of year				10,655	
Fund balance at end of year				\$ 59,567 *	

* The fund balance of \$59,567 was encumbered as of September 30, 2015.

See notes to financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The operations 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) (collectively, the Funds) 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 is derived from 15% of a county-wide 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.

TDAA3F is pooled with other City monies in the Special Revenue Fund. The Special Revenue Fund accounts for the City's share of the Transportation Development Act Article 3 allocations which are legally restricted for specific purposes.

Basis of Accounting

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.

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.

Unrealized Gain (Loss) on Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, local governments are required to use fair value (instead of amortized costs) for financial reporting purposes. As a result of such implementation, the City recognizes the unrealized gain (loss) investments.

Reclassifications

Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 presentation.

NOTE 2 ANNUAL FINANCIAL STATEMENTS

The financial statements present only the Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund and Transportation Development Act Article 3 Fund, and do not purport to, and do not present fairly the City's financial position as of September 30, 2015 and 2014, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

NOTE 3 PROPOSITION A AND PROPOSITION C LOCAL RETURN COMPLIANCE REQUIREMENTS

The Proposition A Ordinance requires that Local Return (LR) funds be used exclusively to benefit public transit. Expenditures related to fixed route and paratransit services, Transportation Demand Management, Transportation Systems Management and fare subsidy programs that exclusively benefit transit are all eligible uses of Proposition A LR funds. Proposition A LR funds may also be traded with other Jurisdictions in exchange for general or other funds.

The Proposition C Ordinance directs that LR funds also be used to benefit public transit, as described above, but provides an expanded list of eligible project expenditures including Congestion Management Programs, bikeways and bike lanes, street improvements supporting public transit service, and Pavement Management System projects. Proposition C LR funds cannot be traded.

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. See accompanying Compliance Matrix.

NOTE 4 MEASURE R LOCAL RETURN COMPLIANCE REQUIREMENTS

The Measure R Ordinance specifies that LR funds be used exclusively for transportation purposes.

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. See accompanying Compliance Matrix.

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. See accompanying Compliance Matrix.

NOTE 6 CASH AND INVESTMENTS

The PALRF, PCLRF, MRLRF and TDAA3F cash and investment 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 quarterly balances to the total of the pooled cash and investments.

Please refer to the City's Comprehensive Annual Financial Report (CAFR) for a full description of risks relating to cash and investments.

NOTE 7 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND REVENUE ALLOCATION

The revenue allocation for the years ended September 30 consisted of the following:

	2015	2014
Funds returned to LACMTA, excluding interest	\$ -	\$ 9,723
FY 2008/09 allocation	-	127
FY 2009/10 allocation	7,356	-
FY 2010/11 allocation	6,862	-
FY 2011/12 allocation	8,234	-
FY 2012/13 allocation	12,142	-
FY 2013/14 allocation	13,627	-
FY 2014/15 allocation	11,103	-
	\$ 59,324	\$ 9,850

NOTE 8 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUNDS RESERVED

In accordance with TDA Article 3 (SB821) Guidelines, funds which will not be 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 LACMTA. As of September 30, the City has funds on reserve as follows:

	2015	2014
FY 2009/10 reserve	\$ -	\$ 7,356
FY 2010/11 reserve	-	6,862
FY 2011/12 reserve	-	8,234
FY 2012/13 reserve	-	12,142
FY 2013/14 reserve	-	13,627
Available reserve balance as of September 30	\$ -	\$ 48,221

**NOTE 8 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUNDS RESERVED
(CONTINUED)**

For FY 2014/15, any TDA Article 3 funds left on reserve for FY 2010/11 or prior, are subject to lapse if not claimed by the City by September 30, 2015. There were no funds that lapsed in FY 2014/15.

NOTE 9 SUBSEQUENT EVENTS

The City has evaluated subsequent events through April 28, 2016, the date the financial statements were available to be issued, and concluded no events have occurred that require disclosure or adjustments to the financial statements.

**Report of Independent Auditors 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 El Segundo, California and the
Los Angeles County Metropolitan Transportation Authority**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Transportation Development Act Article 3 Fund (collectively, the Funds) of the City of El Segundo, California (the City) as of and for the year ended September 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated April 28, 2016.

Internal Control over Financial Reporting

In planning and performing our audits of the Funds' 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 Funds' 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, material deficiencies or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

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 entity's 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 in internal control, yet important enough to merit attention by those charged with governance. We identified a deficiency in internal control described in the Schedule of Findings in Internal Control over Financial Reporting and on Compliance as Finding No. 2015-001 that we consider to be a material weakness.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund and Transportation Development Act Article 3 Fund 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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's Response to the Finding

The City's response to the finding identified in our audit is described previously. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the response.

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 results 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 "Vazquez & Company LLP".

Los Angeles, California
April 28, 2015

Finding No. 2015-001: Cash Management and Bank Reconciliation

Condition

We noted during our audit that the City had not prepared its bank reconciliation statements for approximately eight (8) months subsequent to year end. The reconciliation of bank account balances with accounting records is a necessary element of an effective internal control system for cash. This process should be a routine procedure in the City's accounting process.

Internal control is key to ensuring that account balances are accurate so that financial positions of the municipality is accurate and the City's governing body can make informed decisions. The timely preparation of the monthly bank reconciliation statements enables management to detect and resolve any discrepancies and problems in the account balances within a reasonable period of time.

Cause and Effect

We learned that the City lost several key employees in the finance and accounting department during the fiscal year 2015. As such, there was no proper oversight over the preparation of the bank reconciliation statements. The lack of oversight can lead to the risk that discrepancies will not be detected or resolved in a timely manner, and also can lead to a higher risk of misappropriation.

Criteria

A material weakness is a deficiency or combination of deficiencies in internal controls, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. GAAP such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Recommendation

Bank and cash reconciliations should be performed monthly to ensure accuracy and accountability for all cash transactions. The City should review its internal control procedures to determine what changes need to be made to ascertain bank accounts are always reconciled on a timely basis. Some changes to consider could be cross-training as well as developing relationships with consultants that could assist the accounting department when employee turnover occurs.

Views of Responsible Officials

The City agrees with the auditor's recommendation that bank and cash reconciliations should be performed monthly. With the turnover of staff, outside consultants were used to perform the bank reconciliations. Permanent city staff will be taking over the role of performing the bank reconciliations on a monthly basis.

COMPLIANCE SECTION

Report of Independent Auditors on Compliance

**To the Honorable Members of the City Council of the
City of El Segundo, California and the
Los Angeles County Metropolitan Transportation Authority**

Report on Compliance

We have audited the compliance of the City of El Segundo, California (the 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 Transportation Development Act Article 3 Bicycle and Pedestrian Funds (collectively, the Guidelines) for the year ended September 30, 2015.

Management's Responsibility

Management is responsible for the City's compliance with the Guidelines.

Auditors' 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 the 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. Those standards and the Guidelines require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the Proposition A Local Return Program, Proposition C Local Return Program, Measure R Local Return Program, and Transportation Development Act Article 3 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 with the Guidelines. However, our audit does not provide a legal determination of the City's compliance with the Guidelines.

Opinion

In our opinion, the City of City of El Segundo, California complied, in all material respects, with the compliance requirements of the Guidelines for the year ended September 30, 2015.



Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance, 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.

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 on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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 requirements of the Guidelines. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Vasquez & Company LLP".

Los Angeles, California
April 28, 2016

**City of El Segundo
Compliance Matrix
Year ended September 30, 2015**

Compliance Requirements	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 approved before being incurred.	X		None	
3. Expenditures did not exceed 25% of LACMTA's approved budget.	X		None	
4. Administrative expenses are within the 20% cap.	X		None	
5. All on-going and carryover projects were reported on Form B.	X		None	
6. Annual Project Summary Report (Form B) was submitted on time.	X		None	
7. Annual Expenditure Report (Form C) was submitted on time.	X		None	
8. Cash or cash equivalents are maintained.	X		None	
9. Accounting procedures, record keeping and documentation are adequate.	X		None	
B. Measure R Local Return Fund				
1. Funds were expended for transportation purposes.	X		None	
2. Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	X		None	
3. Signed Assurances and Understandings on file.	X		None	
4. Separate Measure R Local Return Account was established.	X		None	
5. Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	X		None	

**City of El Segundo
Compliance Matrix
Year ended September 30, 2015**

Compliance Requirements	In Compliance		Questioned Costs	If no, provide details and management response.
	Yes	No		
B. Measure R Local Return Fund (Continued)				
6. Funds were expended with LACMTA's approval.	X		None	
7. Expenditure Plan (Form One) was submitted on time.	X		None	
8. Expenditure Report (Form Two) was submitted on time.	X		None	
9. Timely use of funds.	X		None	
10. Administrative expenses are within the 20% cap.	X		None	
11. Fund exchanges were approved by LACMTA.				Not applicable.
12. A separate account was established for Capital reserve funds and Capital reserve was approved by LACMTA.				Not applicable.
13. Recreational transit form was submitted on time.				Not applicable.
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	

EXIT CONFERENCE

An exit conference was held on April 28, 2016 with City of El Segundo representatives. Those in attendance were:

Vasquez and Company LLP representatives:
Roger Martinez – Audit Partner
Marialyn Salvador – Audit Manager

City of El Segundo representative:
Joseph Lillio – Finance Director
Misty Cheng – Interim Finance Director

Matters discussed:

Results of the audit disclosed a material weakness in internal control over financial reporting.

A copy of this report was forwarded to the following City of El Segundo representatives for comments prior to the issuance of the final report:

Joseph Lillio – Finance Director
Misty Cheng – Interim Finance Director



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