



MetroTM

**City of Hawaiian Gardens
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 for the Years Ended June 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 Hawaiian Gardens, California and the
Los Angeles County Metropolitan Transportation Authority**

Report on the Financial Statements

We have audited the accompanying financial statements of the Proposition A Local Return Fund, 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 Hawaiian Gardens, California (the City) which comprise the Funds' balance sheets as of June 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.



Opinions

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 Hawaiian Gardens, California, as of June 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 June 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 March 18, 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.

Los Angeles, California
March 18, 2016

**City of Hawaiian Gardens
Proposition A Local Return Fund
Balance Sheets**

		June 30	
		2015	2014
ASSETS			
Cash and investments	\$	365,489	\$ 14,399
Total assets	\$	365,489	\$ 14,399
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	10,272	\$ 4,167
Accrued payroll liabilities		13,448	9,258
Total liabilities		23,720	13,425
Fund balance			
Restricted		341,769	974
Total fund balance		341,769	974
Total liabilities and fund balance	\$	365,489	\$ 14,399

See notes to financial statements.

City of Hawaiian Gardens
Proposition A Local Return Fund
Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2015	2014
Revenues		
Proposition A	\$ 254,226	\$ 243,970
Proposition A fund exchange	650,000	125,000
Investment income	999	4
Bus pass sales	564	336
Total revenues	905,789	369,310
 Expenditures		
Various projects	564,994	390,108
Total expenditures	564,994	390,108
 Excess (deficiency) of revenues over expenditures	 340,795	 (20,798)
 Fund balance at beginning of year	 974	 21,772
 Fund balance at end of year	 \$ <u>341,769</u>	 \$ <u>974</u>

See notes to financial statements.

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

Project Code- Seq No.	Project Name	2015		Variance Positive (Negative)	2014 Actual
		LACMTA Budget	Actual		
110-06	Long Beach Transit - Fixed Route	\$ 12,500	\$ 12,417	\$ 83	\$ 10,828
130-05	Human Services Transportation Program	298,793	464,578 *	(165,785)	295,651
150-07	Bus Stop Maintenance Program	50,131	46,880	3,251	43,835
250-01	Bus Pass Subsidy	2,500	1,100	1,400	784
480-02	Transportation Administration	41,258	40,019	1,239	39,010
	Total expenditures	\$ 405,182	\$ 564,994	\$ (159,812)	\$ 390,108

* See Compliance Matrix.

See report of independent auditors.

**City of Hawaiian Gardens
Proposition A Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2015**

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>
1984	Toyota Flatbed Truck	\$ 4,000	\$ -	-	\$ 4,000
1985	Bobcat Tractor	13,057	-	-	13,057
1989	Cushman Haulster Turf Vehicles	6,358	-	-	6,358
1991	Chevrolet C-2500 Truck	16,000	-	-	16,000
1993	Chevrolet S-10 Truck	13,672	-	13,672	-
1994	Speed Trailer	14,473	-	-	14,473
1994	Ford CT4192 Skip Loader	37,826	-	-	37,826
1996	Chevrolet Stakebed Truck	25,801	-	-	25,801
1996	Ford Econobus	50,841	-	50,841	-
1997	Ford F-250XL Truck	25,174	-	-	25,174
1997	Ford F-250XL Truck	24,928	-	-	24,928
1998	Ford F-350 Passenger Bus	39,332	-	39,332	-
2000	Ford Truck Aerial Lift	65,063	-	-	65,063
2002	Honda Civic Sedan	21,964	-	21,964	-
2002	Ford Windstar LX	22,681	-	22,681	-
2003	Ford Escape Sedan	21,606	-	-	21,606
2003	Ford F-150 Truck	20,030	-	-	20,030
2004	Ford Ranger Truck	15,102	-	15,102	-
2004	Ford F-150 Truck	24,184	-	-	24,184
2005	Vintage Cab	13,194	-	-	13,194
2005	Tennant 6650 Small Street Sweeper	29,851	-	-	29,851
2006	Lincoln Town Car	25,973	-	-	25,973
2006	Kohler 26hP EFI Riding Lawnmower	11,747	-	-	11,747
2006	Ford E-150 Passenger Van	21,771	-	21,771	-
2006	Starcraft Allstar Econobus/Shuttle Bus	57,260	-	-	57,260
2007	Ford Escape - Hybrid FWD	25,073	-	-	25,073
2007	Ford Escape - Hybrid FWD	25,073	-	-	25,073
2007	Ford Truck - Regular Cab	16,484	-	-	16,484
2007	Ford Truck - Regular Cab	16,484	-	-	16,484
2007	Scissor Lift	16,031	-	-	16,031
2007	El Dorado Aerotech 240	35,101	-	-	35,101
Total \$		<u>756,134</u>	<u>\$ -</u>	<u>\$ 185,363</u>	<u>\$ 570,771</u>

See report of independent auditors.

**City of Hawaiian Gardens
Proposition C Local Return Fund
Balance Sheets**

		June 30	
		2015	2014
ASSETS			
Cash and investments	\$	99,197	\$ 92,763
Total assets	\$	99,197	\$ 92,763
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	6,754	\$ 3,801
Accrued payroll liabilities		3,894	7,449
Total liabilities		10,648	11,250
Fund balance			
Restricted		88,549	81,513
Total fund balance		88,549	81,513
Total liabilities and fund balance	\$	99,197	\$ 92,763

See notes to financial statements.

City of Hawaiian Gardens
Proposition C Local Return Fund
Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2015	2014
Revenues		
Proposition C	\$ 212,111	\$ 203,566
Investment income	220	226
Total revenues	212,331	203,792
 Expenditures		
Various projects	205,295	334,996
Total expenditures	205,295	334,996
 Excess (deficiency) of revenues over expenditures	 7,036	 (131,204)
 Fund balance at beginning of year	 81,513	 212,717
 Fund balance at end of year	 \$ 88,549	 \$ 81,513

See notes to financial statements.

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

Project Code- Seq No.	Project Name	2015			2014 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
120-04	Paratransit Program	\$ 299,793	\$ 140,054	\$ 159,739	\$ 295,520
270-01	Corridor Study	-	20,000 *	(20,000)	-
270-02	Dues for COG	-	5,018 *	(5,018)	-
480-03	Transportation Administration	42,258	40,223	2,035	39,476
	Total expenditures	\$ 342,051	\$ 205,295	\$ 136,756	\$ 334,996

* See Compliance Matrix.

See report of independent auditors.

City of Hawaiian Gardens
Proposition C Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2015

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>
2008	El Dorado Aerotech 240	\$ 35,101	\$ -	-	\$ 35,101
2010	Honda Odyssey	33,567	-	-	33,567
Total		\$ 68,668	\$ -	-	\$ 68,668

See report of independent auditors.

**City of Hawaiian Gardens
Measure R Local Return Fund
Balance Sheets**

		June 30	
		2015	2014
ASSETS			
Cash and investments	\$	288,786	\$ 469,342
Total assets	\$	288,786	\$ 469,342
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	4,480	\$ 745
Total liabilities	\$	4,480	745
Fund balance			
Restricted		284,306	468,597
Total fund balance		284,306	468,597
Total liabilities and fund balance	\$	288,786	\$ 469,342

See notes to financial statements.

**City of Hawaiian Gardens
Measure R Local Return Fund**

Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2015	2014
Revenues		
Measure R	\$ 158,191	\$ 151,025
Investment income	934	625
Total revenues	159,125	151,650
 Expenditures		
Various projects	343,416	18,826
Total expenditures	343,416	18,826
 Excess (deficiency) of revenues over expenditures	(184,291)	132,824
 Fund balance at beginning of year	468,597	335,773
 Fund balance at end of year	\$ 284,306	\$ 468,597

See notes to financial statements.

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

Project Code- Seq No.	Project Name	2015			2014 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
1.05	Street Overlays for Pavement Management Plan	\$ 400,000	\$ 343,416	\$ 56,584	\$ 18,826
	Total expenditures	<u>\$ 400,000</u>	<u>\$ 343,416</u>	<u>\$ 56,584</u>	<u>\$ 18,826</u>

See report of independent auditors.

City of Hawaiian Gardens
Measure R Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2015

Date Acquired	Description	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
None		\$ -	\$ -	\$ -	\$ -
		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See report of independent auditors.

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

		June 30	
		2015	2014
ASSETS			
Cash and investments		\$ -	\$ -
	Total assets	\$ -	\$ -
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable		\$ -	\$ -
	Total liabilities	-	-
Commitments and Contingencies		Note 8	
Fund balance			
Restricted		-	-
	Total fund balance	-	-
	Total liabilities and fund balance	\$ -	\$ -

See notes to financial statements.

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

	Years ended June 30	
	2015	2014
Revenues		
Intergovernmental allocations:		
Article 3	\$ -	\$ -
Total revenues	-	-
Expenditures		
Construction/Maintenance		-
Total expenditures	-	-
Excess of revenues over expenditures	-	-
Fund balance at beginning of year	-	-
Fund balance at end of year	\$ -	\$ -

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.

Transportation Development Act Article 3 Fund (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) on investments.

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 do not purport to, and do not, present fairly the City's financial position as of June 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 monthly 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 PROPOSITION A LOCAL RETURN FUND EXCHANGE

As permitted under the Guidelines and as approved by LACMTA, the City entered into agreements with various cities to exchange the City's Proposition A monies with general fund monies of other cities as permitted by the Guidelines. Those exchanges are listed below:

- In July 2014, the City entered into an agreement with the City of Maywood to exchange general fund monies amounting to \$350,000 for \$500,000 or \$0.70 general fund per \$1 of PALRF monies.
- In June 2014, the City entered into an agreement with the City of La Habra Heights to exchange general fund monies amounting to \$60,000 for \$80,000 or \$0.75 general fund per \$1 of PALRF monies.
- In May 2013, the City entered into an agreement with the City of La Habra Heights to exchange general fund monies amounting to \$52,500 for \$70,000 or \$0.75 general fund per \$1 of PALRF monies.
- In June 2013, the City entered into an agreement with the City of Maywood to exchange general fund monies amounting to \$87,500 for \$125,000 or \$0.70 general fund per \$1 of PALRF monies.

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 June 30, 2015 and 2014, the City has funds on reserve as follows:

		<u>2015</u>		<u>2014</u>
FY 2012/13 reserve	\$	11,314	\$	11,314
FY 2013/14 reserve		11,659		11,659
FY 2014/15 allocation		9,501		-
	\$	<u>32,474</u>	\$	<u>22,973</u>

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

There were no funds drawn down in FY 2014/15 and FY 2013/14.

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 June 30, 2015. There were no funds that lapsed in FY 2014/15.

NOTE 9 SUBSEQUENT EVENTS

The City has evaluated subsequent events through March 18, 2016, the date the financial statements were available to be issued, and concluded that no events have occurred that require disclosure in 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 Hawaiian Gardens, 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 Hawaiian Gardens, California (the City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated March 18, 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.

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, 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 audits 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 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*.

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.

Los Angeles, California
March 18, 2016

COMPLIANCE SECTION

Report of Independent Auditors on Compliance

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

Report on Compliance

We have audited the compliance of the City of Hawaiian Gardens, California (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 June 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 Hawaiian Gardens, California complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2015.



Other Matters

The results of our auditing procedures disclosed instances of noncompliance with the requirements, which are described in the accompanying Compliance Matrix. Our opinion 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 Compliance Matrix. The City's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on these responses.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified deficiencies in internal control over compliance, as described in the accompanying Compliance Matrix as Findings #2015-001 and #2015-002, that we consider to be material weaknesses.

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying Compliance Matrix. The City's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on these 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 requirements of the Guidelines. Accordingly, this report is not suitable for any other purpose.

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

**Los Angeles, California
March 18, 2016**

**City of Hawaiian Gardens
Compliance Matrix
Year ended June 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	\$25,018	<p><i>Finding #2015-001</i></p> <p><u>PCLRF</u></p> <p>The City claimed expenditures under the following PCLRF projects with no prior approval from LACMTA:</p> <p>a. Project code 270-01, Corridor Study, totaling \$20,000; and</p> <p>b. Project code 270-02, Dues for COG, totaling \$5,018.</p> <p>Although we found the expenditures to be eligible for Local Return funding, these projects had no prior approval from LACMTA.</p> <p>LACMTA Program Manager granted a retroactive approval of the said projects on February 17, 2016 and February 19, 2016.</p> <p>We recommend for the City to establish procedures and controls to ensure that approval is obtained from LACMTA prior to implementing any projects under the Local Return funds.</p>

**City of Hawaiian Gardens
Compliance Matrix
Year ended June 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 (Continued)				
2. Expenditures approved before being incurred. (Continued)				<p><i>Management Response</i></p> <p>A new Finance Director was hired in April 2015 and as the various accounts were being reviewed, the Director identified that the use of these funds for the corridor study and dues were eligible expenses and used the funds to pay these amounts. However the Finance Director was unaware that this change required a prior approval from the LACMTA. This requirement is now noted in the procedures so that any future changes will be processed through LACMTA prior to expending the funds.</p>
3. Expenditures did not exceed 25% of LACMTA's approved budget.		X	\$91,087	<p><i>Finding # 2015-002</i></p> <p><u>PARLF</u></p> <p>The City exceeded LACMTA's approved budget by 55% without obtaining approval through a revised Form A for Project code 130-05, Human Services Transportation Program.</p> <p>Projects with greater than 25% change from the approved project budget should be amended by submitting an amended Project Description Form (Form A).</p>

**City of Hawaiian Gardens
Compliance Matrix
Year ended June 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 (Continued)				
3. Expenditures did not exceed 25% of LACMTA's approved budget. (Continued)				<p>LACMTA Program Manager granted a retroactive approval on the amended budget for the said projects on February 19, 2016.</p> <p>We recommend for the City to submit a Form A to obtain LACMTA's approval for the change in project budget and for the City to implement controls to ensure compliance with this requirement at all times.</p> <p><i>Management Response</i></p> <p>The City approved an increase to the budget internally but with the personnel changes in the Finance area, the submission of a revised Form A was not done. The City is documenting procedures to assure timely submission of budget modifications.</p>
4. Administrative expenses are within the 20% cap.	X		None	
5. All on-going and carryover projects were reported in Form B.	X		None	

**City of Hawaiian Gardens
Compliance Matrix
Year ended June 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 (Continued)				
6. Annual Project Summary Report (Form B) was submitted on time.		X	None	<p><i>Finding #2015-003</i></p> <p>The City submitted its Form B on August 15, 2014, which is beyond the due date set under the Guidelines.</p> <p>We recommend for the City to establish procedures and controls to ensure that Form B is submitted by August 1 as required by the Guidelines.</p> <p><i>Management Response</i></p> <p>The City did not have a full time Finance Director during most of the FY 2014-2015. Staff and consultants were responsible for maintaining operational activities. The submittal of Form B was overlooked. There is now a Finance Calendar and the due dates for these are listed to provide better controls to assure timely filing of documents.</p>
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	

**City of Hawaiian Gardens
Compliance Matrix
Year ended June 30, 2015**

Compliance Requirements	In Compliance		Questioned Costs	If no, provide details and management response.
	Yes	No		
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	
6. Funds were expended with LACMTA's approval.	X		None	
7. Expenditure Plan (Form One) was submitted on time.		X	None	<p><i>Finding #2015-004</i></p> <p>The City submitted its Form One on August 19, 2014, which is beyond the due date set under the Guidelines.</p> <p>We recommend for the City to establish procedures and controls to ensure that Form One is submitted by August 1 as required by the Guidelines.</p>

**City of Hawaiian Gardens
Compliance Matrix
Year ended June 30, 2015**

Compliance Requirements	In Compliance		Questioned Costs	If no, provide details and management response.
	Yes	No		
B. Measure R Local Return Fund (Continued)				
7. Expenditure Plan (Form One) was submitted on time. (Continued)				<i>Management Response</i> The City had a transition of the Finance Director position with multiple consultants filling the role during the 2013-2014 and 2014-2015 fiscal years. The position has now been filled with a full time employee. As part of the effort to ensure these deadlines are not missed a calendar for the Finance department has been developed that can be used by staff to monitor dates for submission of the forms even if another staff transition occurs.
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.				Not applicable. There were no expenditures in FY 2014/15.

EXIT CONFERENCE

An exit conference was held on March 18, 2016 with a City of Hawaiian Gardens representative. Those in attendance were:

Vasquez and Company LLP representative:
Marialyn Salvador – Audit Manager

City of Hawaiian Gardens representative:
Linda Hollinsworth – Finance Manager / Acting City Manager

Matters discussed:

Results of the audit disclosed issues of noncompliance with the requirements.

A copy of this report was forwarded to the following City of Hawaiian Gardens representative for comments prior to the issuance of the final report:

Linda Hollinsworth – Finance Manager / Acting City Manager



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