



MetroTM

**City of Signal Hill
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

	<u>PAGE</u>
FINANCIAL SECTION	
Report of Independent Auditors	1
Proposition A Local Return Fund:	
Basic Financial Statements:	
Balance Sheets	3
Statements of Revenues, Expenditures and Changes in Fund Balance	4
Supplementary Information:	
Schedule of Expenditures – Actual and LACMTA Approved Project Budget	5
Schedule of Capital Assets	6
Proposition C Local Return Fund:	
Basic Financial Statements:	
Balance Sheets	7
Statements of Revenues, Expenditures and Changes in Fund Balance	8
Supplementary Information:	
Schedule of Expenditures – Actual and LACMTA Approved Project Budget	9
Schedule of Capital Assets	10
Measure R Local Return Fund:	
Basic Financial Statements:	
Balance Sheets	11
Statements of Revenues, Expenditures and Changes in Fund Balance	12
Supplementary Information:	
Schedule of Expenditures – Actual and LACMTA Approved Project Budget	13
Schedule of Capital Assets	14
Transportation Development Act Article 3 Fund:	
Basic Financial Statements:	
Balance Sheets	15
Statements of Revenues, Expenditures and Changes in Fund Balance	16
Supplementary Information:	
Schedule of Transportation Development Act Allocation for Specific Projects	17
Notes to Funds Financial Statements	18
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 <i>Government Auditing Standards</i>	22
COMPLIANCE SECTION	
Report of Independent Auditors on Compliance	24
Compliance Matrix	26
EXIT CONFERENCE	30

FINANCIAL SECTION

Report of Independent Auditors

**To the Honorable Members of the City Council of the
City of Signal Hill, 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 Signal Hill, 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 Signal Hill, 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 December 22, 2015 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
December 22, 2015**

**City of Signal Hill
Proposition A Local Return Fund
Balance Sheets**

		June 30	
		2015	2014
ASSETS			
Cash and investments	\$	577,498	\$ 558,590
Interest receivable		-	392
Total assets	\$	577,498	\$ 558,982
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	35,635	\$ 35,962
Salaries payable		118	1,275
Total liabilities		35,753	37,237
Fund balance			
Restricted		541,745	521,745
Total fund balance		541,745	521,745
Total liabilities and fund balance	\$	577,498	\$ 558,982

See notes to financial statements.

City of Signal Hill
Proposition A Local Return Fund
Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2015	2014
Revenues		
Proposition A	\$ 198,394	\$ 190,390
Investment income	1,279	4,582
Project generated revenues	1,612	2,193
Total revenues	201,285	197,165
 Expenditures		
Various projects	181,285	165,822
Total expenditures	181,285	165,822
 Excess of revenues over expenditures	 20,000	 31,343
Fund balance at beginning of year	521,745	490,402
Fund balance at end of year	\$ 541,745	\$ 521,745

See notes to financial statements.

City of Signal Hill
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	Project Name	2015		Variance Positive (Negative)	2014 Actual
		LACMTA Budget	Actual		
110-02	Fixed Route Subsidy	\$ 38,808	\$ 38,808	\$ -	\$ 39,698
120-02	Dial-A-Lift	20,000	34,330 ^a	(14,330)	12,757
120-05	Dial-A-Taxi	15,000	9,030	5,970	15,927
140-03	Recreational Transit	21,000	23,878	(2,878)	19,374
170-07	Bus Shelter Maintenance	35,000	29,522	5,478	35,017
250-04	Bus Fare Subsidy	4,800	3,600	1,200	4,665
270-10	Oversight Committee for I-710 EIR/EIS Alternative Route Improvements	10,000	10,000	-	10,000
480-06	Staff Administration	32,730	32,117 [*]	613	28,384
Total expenditures		\$ 177,338	\$ 181,285	\$ (3,947)	\$ 165,822

^a The true variance calculated as follows:

LACMTA approved budget		\$ 20,000
Total expenditures	\$ 34,330	
Less: Bus pass sales	1,234	33,096
True variance (over)/under		\$ <u>(13,096)</u> [*]

* See Compliance Matrix.

See report of independent auditors.

City of Signal Hill
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>
None		\$ -	\$ -	\$ -	\$ -
	Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See report of independent auditors.

**City of Signal Hill
Proposition C Local Return Fund
Balance Sheets**

		June 30	
		2015	2014
ASSETS			
Cash and investments	\$	356,190	\$ 268,998
Interest receivable		-	190
Total assets	\$	356,190	\$ 269,188
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	-	\$ -
Total liabilities		-	-
Fund balance			
Restricted		356,190	269,188
Total fund balance		356,190	269,188
Total liabilities and fund balance	\$	356,190	\$ 269,188

See notes to financial statements.

City of Signal Hill
Proposition C Local Return Fund
Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2015	2014
Revenues		
Proposition C	\$ 163,693	\$ 157,023
Investment income	967	2,289
Total revenues	164,660	159,312
 Expenditures		
Various projects	77,658	72,868
Total expenditures	77,658	72,868
 Excess of revenues over expenditures	87,002	86,444
 Fund balance at beginning of year	269,188	182,744
 Fund balance at end of year	\$ 356,190	\$ 269,188

See notes to financial statements.

City of Signal Hill
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	Project Name	2015			2014
		LACMTA Budget	Actual	Variance Positive (Negative)	
270-07	Transportation Planning	\$ 2,000	\$ -	\$ 2,000	\$ -
400-02	Traffic Signal Synchronization	50,000	50,000	-	45,210
440-03	Traffic Corridor Street Improvements	25,200	25,200	-	25,200
500-05	Membership Dues - Gateway Cities	5,000	2,458	2,542	2,458
	Total expenditures	\$ 82,200	\$ 77,658	\$ 4,542	\$ 72,868

See report of independent auditors.

City of Signal Hill
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>
None		\$ -	\$ -	\$ -	\$ -
	Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See report of independent auditors.

**City of Signal Hill
Measure R Local Return Fund
Balance Sheets**

		June 30	
		2015	2014
ASSETS			
Cash and investments	\$	196,853	\$ 73,017
Interest receivable		-	81
Total assets	\$	196,853	\$ 73,098
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	-	\$ -
Total liabilities		-	-
Fund balance			
Restricted		196,853	73,098
Total fund balance		196,853	73,098
Total liabilities and fund balance	\$	196,853	\$ 73,098

See notes to financial statements.

City of Signal Hill
Measure R Local Return Fund

Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2015	2014
Revenues		
Measure R	\$ 123,450	\$ 117,857
Investment income	305	720
Total revenues	123,755	118,577
Expenditures		
Various projects	-	98,000
Total expenditures	-	98,000
Excess of revenues over expenditures	123,755	20,577
Other financing source		
Transfer from Capital Improvements Fund	-	33,502
Excess of revenues over expenditures and other financing source	123,755	54,079
Fund balance at beginning of year	73,098	19,019
Fund balance at end of year	\$ 196,853	\$ 73,098

See notes to financial statements.

City of Signal Hill
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	Project Name	2015			2014 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
1.05	2013-14 Pavement Management	\$ -	\$ -	\$ -	98,000
1.05	2014-15 Pavement Management	150,503	-	150,503	-
	Total expenditures	\$ 150,503	\$ -	\$ 150,503	\$ 98,000

See report of independent auditors.

City of Signal Hill
Measure R 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>
None		\$ -	\$ -	\$ -	\$ -
	Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See report of independent auditors.

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

		June 30	
		2015	2014
ASSETS			
Cash and investments		\$ -	\$ 18,440
	Total assets	\$ -	\$ 18,440
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable		\$ -	\$ -
	Total liabilities	-	-
Fund balance			
Restricted		-	18,440
	Total fund balance	-	18,440
	Total liabilities and fund balance	\$ -	\$ 18,440

See notes to financial statements.

City of Signal Hill
 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	\$	-	\$ 20,000
Total revenues		-	20,000
Expenditures			
Construction/Maintenance		18,440	1,560
Total expenditures		18,440	1,560
Excess (deficiency) of revenues over expenditures		(18,440)	18,440
Fund balance at beginning of year		18,440	-
Fund balance at end of year	\$	-	\$ 18,440

See notes to financial statements.

City of Signal Hill
 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 June 30, 2015

Project Description	Program Year	Totals to Date		Unexpended Allocations	Project Status
		Allocations	Expenditures		
Local Allocations:					
General Sidewalk Repair	2015	\$ -	\$ 18,440	\$ (18,440)	Completed
Totals		\$ -	\$ 18,440	(18,440)	
Fund balance at beginning of year				18,440	
Fund balance at end of year				\$ -	

See report of independent auditors.

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 PROJECT GENERATED REVENUES UNDER PALRF

Project generated revenues for the years ended June 30, 2015 and 2014 consisted of the following:

		<u>2015</u>		<u>2014</u>
Senior Bus Pass	\$	377	\$	484
Dial-A-Taxi Fares		1,235		1,709
Total	\$	<u>1,612</u>	\$	<u>2,193</u>

NOTE 8 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND REVENUE ALLOCATION

The revenue allocation for the years ended June 30, 2015 and 2014 consisted of the following:

		<u>2015</u>		<u>2014</u>
FY 2009/10 allocation	\$	-	\$	5,000
FY 2010/11 allocation		-		5,000
FY 2011/12 allocation		-		5,545
FY 2012/13 allocation		-		4,455
	\$	<u>-</u>	\$	<u>20,000</u>

There was no drawdown of TDA Article 3 funds in FY 2014/15.

NOTE 9 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	\$	3,715	\$	3,715
FY 2013/14 reserve		9,101		9,101
FY 2014/15 allocation		7,418		-
Available reserve	\$	<u>20,234</u>	\$	<u>12,816</u>

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 10 SUBSEQUENT EVENTS

The City has evaluated subsequent events through December 22, 2015, the date the financial statements were available to be issued, and concluded that 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 Signal Hill, 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 Signal Hill, 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 December 22, 2015.

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.

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

**Los Angeles, California
December 22, 2015**

COMPLIANCE SECTION

Report of Independent Auditors on Compliance

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

Report on Compliance

We have audited the compliance of the City of Signal Hill, 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 Signal Hill, 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 the 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.

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

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. We identified a deficiency in internal control over compliance, as described in the accompanying Compliance Matrix as Finding #2015-002, that we consider 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 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 identified a deficiency in internal control over compliance, as described in the accompanying Compliance Matrix as Finding #2015-001, that we consider to be a significant deficiency.

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 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 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
December 22, 2015**

**City of Signal Hill
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		None	
3. Expenditures did not exceed 25% of LACMTA's approved budget.		X	\$8,096	<p><i>Finding #2015-001</i></p> <p><u>PALRF</u></p> <p>The City exceeded LACMTA's approved budget for PALRF Project code 120-02 Dial-A-Lift by 65%, without LACMTA's prior approval.</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> <p>LACMTA Program Manager granted a retroactive approval on the amended budget for the said project on December 17, 2015.</p> <p>We recommend that the City submit a Form A to obtain approval for the change in project budget, and that the City implement controls to ascertain compliance at all times.</p>

**City of Signal Hill
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)				<i>Management Response</i> Finance will make sure that the new City Community Services Department Head, and the contractor that helps with the reporting, are in communication with the LACMTA and are properly trained as to what documentation they need to submit to LACMTA for budget changes.
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	\$31,998	<i>Finding #2015-002</i> <u>PALRF</u> The salaries and benefits totaling \$31,998 under Project 480-06, Staff Administration was based on percentages determined by the City departments to be attributable to the LACMTA projects. However, the percentages utilized cannot be supported by timesheets or similar time and effort documentation to demonstrate that the salaries charged were expended on approved Proposition A Local Return projects.

**City of Signal Hill
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)				
9. Accounting procedures, record keeping and documentation are adequate. (Continued)				<p>We recommend that the City revise its current labor reporting procedures to ensure that labor costs charged to LACMTA projects are adequately supported by timesheets, time studies or other acceptable documentation approved by LACMTA.</p> <p><i>Management Response</i></p> <p>Time and effort records that substantiate the use of percentages will be utilized; to demonstrate that the time spent working on approved Proposition A Local Return projects are accurate. Training will be provided to the Community Services Department so time records will then be provided to support the percentages that have been established.</p>
B. Measure R Local Return Fund				
1. Funds were expended for transportation purposes.				Not applicable. There were no expenditures in FY 2014/15.
2. Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.				Not applicable. There were no expenditures in FY 2014/15.
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 Signal Hill
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)				
6. Funds were expended with LACMTA's approval.				Not applicable. There were no expenditures in FY 2014/15.
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.				Not applicable. There were no expenditures in FY 2014/15.
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 December 22, 2015 with City of Signal Hill representatives. Those in attendance were:

Vasquez and Company LLP representative:
Marialyn Salvador – Audit Manager

City of Signal Hill representatives:
Terri J. Marsh – Administrative Services Officer/Finance Director
Pearl Yu – Accountant

Matters discussed:

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

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

Terri J. Marsh – Administrative Services Officer/Finance Director
Pearl Yu – Accountant



www.vasquezcpa.com

Vasquez & Company LLP has over 45 years of experience in performing audit, accounting & consulting services for all types of nonprofit organizations, for-profit companies, governmental entities and publically traded companies. Vasquez is a member of the McGladrey Alliance. McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. McGladrey Alliance provides its members with access to resources of RSM US LLP (formerly known as McGladrey LLP). McGladrey Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Visit <http://www.rsmus.com/aboutus> for more information regarding RSM US LLP and RSM International. McGladrey®, the McGladrey Alliance logo and the McGladrey Alliance signatures are proprietary to RSM US LLP, while RSM™ is used under license by RSM US LLP.