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**City of Compton
Annual Financial Report of its**

Transportation Development Act Article 3 Fund

**As of and for the Year Ended June 30, 2019
with Report of Independent Auditors**

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FINANCIAL SECTION

Report of Independent Auditors

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

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the Transportation Development Act Article 3 Fund (TDAA3 Fund or the Fund), of the City of Compton, California (the City) which comprise the Fund's balance sheet as of June 30, 2019, and the related statement of revenues, expenditures and changes in fund balance for the year 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 an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion on Transportation Development Act Article 3 (TDAA3) Fund

As of the date of our audit report, management was still in the process of preparing bank reconciliation statements. We were unable to confirm or verify by alternative means cash and investment balances included in the balance sheet of the City's Transportation Development Act Article 3 Fund at a total amount of \$293,231, which represents 81% of the Transportation Development Act Article 3 Fund's total assets at June 30, 2019.



As a result of this matter, we were unable to determine whether any adjustments were necessary relating to the Fund's recorded or unrecorded cash and investments, reconciling fund balances, and any affected elements making up the statements of revenues, expenditures and changes in fund balances.

Disclaimer of Opinion on TDAA3 Fund

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on TDAA3 Fund. Accordingly, we do not express an opinion on the financial statements of TDAA3 Fund.

Emphasis of Matter

As discussed in Note 2, the financial statements are intended to present only the TDAA3F of the City of Compton, California, and do not purport to, and do not present the financial position of the City as of June 30, 2019, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Fund's 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 Fund's basic financial statements. Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, it is inappropriate to and we do not express an opinion on the supplemental schedule.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2019 on our consideration of the City's internal control over the Fund's 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 solely to describe the scope of our testing of internal control over the Fund's financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over the Fund's 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 the Fund's financial reporting and compliance.

**Glendale, California
December 23, 2019**

City of Compton
Transportation Development Act Article 3 Fund
Pursuant to Public Utilities Code Section 99234
Balance Sheet
June 30, 2019

ASSETS

Cash and investments	\$	293,231
Interest receivable		2,209
Due from LACMTA		67,820
		67,820
Total assets	\$	363,260

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$	-
		-
Total liabilities		-

Fund balance

Restricted		363,260
		363,260
Total fund balance		363,260
Total liabilities and fund balance	\$	363,260

See notes to Fund financial statements.

City of Compton
Transportation Development Act Article 3 Fund
Pursuant to Public Utilities Code Section 99234
Statement of Revenues, Expenditures and Changes in Fund Balance
Year ended June 30, 2019

Revenues

Intergovernmental Allocations:

Article 3	\$	67,820
Interest income		8,655
Total revenues		<u>76,475</u>

Expenditures

Sidewalk Remediation Project

		-
Total expenditures		<u>-</u>

Excess of revenues over expenditures		76,475
Fund balance at beginning of year		<u>286,785</u>
Fund balance at end of year	\$	<u><u>363,260</u></u>

See notes to Fund financial statements.

City of Compton
Transportation Development Act Article 3 Fund
Pursuant to Public Utilities Code Section 99234
Supplementary Information
Schedule of Transportation Development Act Allocation for Specific Projects
Year ended June 30, 2019

Project Description	Program Year	Totals to Date		Unexpended Allocations	Project Status
		Allocations	Expenditures		
Local Allocations:					
Sidewalk Remediation Project	2019	\$ 67,820	\$ -	\$ 67,820	Ongoing
	Totals	<u>\$ 67,820</u>	<u>\$ -</u>	67,820	
Interest income				8,655	
Fund balance at beginning of year				<u>286,785</u>	
Fund balance at end of year				<u>\$ 363,260</u> *	

* See Compliance Matrix and Schedule of Findings and Questioned Costs.

See report of independent auditors.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The operations of the Transportation Development Act Article 3 Fund (TDAA3F) (the Fund) of the City of Compton (the City) are accounted for in separate sets of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures.

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

Basis of Accounting and Measurement Focus

The TDAA3F is reported as a Special Revenue Fund of the City and is accounted for using the modified accrual basis of accounting. Revenues are recognized when they become "susceptible to accrual", that is, measurable and available to finance expenditures of the current period. Expenditures are recorded when the liability is incurred.

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

Fair Value Measurement

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Reporting

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

The TDAA3F report the following fund balance classification as of June 30, 2019:

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

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

NOTE 2 ANNUAL FINANCIAL STATEMENTS

The financial statements are intended to present only the financial position and results of operations of the TDAA3F, and do not purport to, and do not present the City's financial position as of June 30, 2019, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

NOTE 3 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 4 CASH AND INVESTMENTS

The TDAA3F cash balance was pooled with various other City funds for deposit and investment purposes. The share of the 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 5 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND REVENUE ALLOCATION

The revenue allocations for the year ended June 30, 2019 consisted of the following:

FY 2018/19 allocation	\$ 67,820
	\$ <u>67,820</u>

NOTE 6 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, 2019, the City has no funds on reserve. As of June 30, 2019, the City has funds drawn from reserve amounting to \$84,706 that lapsed. See Compliance Matrix and Schedule of Findings and Questioned Costs.

NOTE 7 SUBSEQUENT EVENTS

The City has evaluated subsequent events through December 23, 2019, 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 Compton, California and the
Los Angeles County Metropolitan Transportation Authority**

We were engaged to audit, 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 Transportation Development Act Article 3 Fund (the Fund) of the City of Compton, California (the City) as of and for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated December 23, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the Fund's financial statements, we considered the City's internal control over the Fund's financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Fund's 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 Fund'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control described in the Schedule of Findings on Internal Control over Financial Reporting as Finding No. FS 2019-001 that we consider to be a material weakness.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's 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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 in the accompanying Schedule of Findings on Internal Control over Financial Reporting. 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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

**Glendale, California
December 23, 2019**

Finding No. FS 2019-001: Year-end Closing Process

Criteria

Transportation Development Article 3 Funding and Allocation Guidelines states that, "It is the jurisdictions' responsibility to maintain proper accounting records and documentation to facilitate the performance of the audit as prescribed in these Guidelines".

Moreover, key internal controls procedures require timely reconciliations of account balances and closing of the books to ensure continued reliability of accounting records.

Condition

This year's closing process was delayed because some important procedures were not performed on time. These include:

- Bank reconciliation statements. 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 processes.
- Recording of adjustments necessary to close the City's books as of the end of the year.
- Beginning fund balances were not reconciled with the prior year audited reports.

Cause and Effect

During the fiscal years 2017 through 2019, the City lost several key employees in the finance and accounting department. As such, there was delay in the closing of the City's books for the fiscal year 2019 and prior years. Also, preparation of the monthly bank reconciliation statements was delayed as account balances are not properly adjusted. Delay in the preparation and review of the bank reconciliation statements 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.

Currently, the accounting personnel and support staff are working towards closing the books and provide the closing entries, trial balances, schedules, reconciliations, account analysis, and other financial reports needed by management and the auditors.

Recommendation

We recommend that the City establish and document proper closing and reconciliation procedures and assign responsibility for completing the procedures to specific City personnel. The closing procedures should be documented in a checklist that indicates who will perform each procedure and when completion of each procedure is due and is accomplished. Bank and cash reconciliations should also 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.

The timing of specific procedures could be coordinated with the timing of management's or the auditor's need for the information. These reconciliations will provide assurance that financial statements are meaningful and accurate.

Views of Responsible Officials

The City is in the process of catching up on all accounting processes that have not been completed due to staff turnover and various other reasons. The new management team in the Controller's office are putting procedures in place to ensure monthly and annual year-end closing processes are well documented and occur on time.

COMPLIANCE SECTION

Report of Independent Auditors on Compliance

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

Report on Compliance

We have audited the compliance of the City of Compton, California (the City) with the Los Angeles County Metropolitan Transportation Authority's Funding and Allocation Guidelines for Transportation Development Act Article 3 Bicycle and Pedestrian Funds (the Guidelines) for the year ended June 30, 2019.

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 with the Guidelines 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 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 adverse opinion on compliance with the Guidelines. However, our audit does not provide a legal determination of the City's compliance with the Guidelines.

Basis for Adverse Opinion

As described in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with the Guidelines regarding timely use of funds drawn from the reserve account. Compliance with such requirements is necessary, in our opinion, for the City to comply with the Guidelines applicable to the program.



Adverse Opinion

In our opinion, the City of Compton, California did not comply, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2019.

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 under the Guidelines 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 under the Guidelines 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 with the Guidelines 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 did identify a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as Finding CF #2019-001, that we consider to be a material weakness.

The City's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

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 "Vazquez & Company LLP".

**Glendale, California
December 23, 2019**

**City of Compton
Compliance Matrix
Year ended June 30, 2019**

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
Transportation Development Act Article 3 Fund					
1. Timely use of funds.		X			See Finding CF #2019-001
2. Expenditures were incurred for activities relating to pedestrian and bicycle facilities and amenities.	X				

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Compton
Schedule of Findings and Questioned Costs
Year ended June 30, 2019

TDAA3F: Finding CF #2019-001

Compliance Reference	TDA Article 3 Guidelines states that, "Agencies may only draw down the funds that they can spend during the fiscal year in which they were allocated. Agencies are not allowed to have a fund balance at the end of the fiscal year. Any funds drawn down and that remain unspent after the end of the fiscal year must be returned to LACMTA to be placed on reserve for the City under the fiscal year in which they were originally allocated. Agencies must also fully spend any interest accumulated by these funds by the end of the fiscal year in which the funds were allocated".
Condition	The City has unexpended fund balance of \$363,260 as of June 30, 2019. Of this amount, \$84,706 has lapsed and \$67,820 has not yet been received from LACMTA. This is a repeat finding from prior years' audits.
Cause	There appears to be a lack of timely review of the available funding to be spent and/or returned for TDA Article 3 Fund.
Effect	The City was not in compliance with the TDA Article 3 Guidelines and will be required to return the unexpended fund balance as of June 30, 2019.
Recommendation	We recommend that the City return the unexpended funds of \$363,260 to LACMTA consistent with the TDA Article 3 Guidelines.
Management's Response	Staff has requested an extension to spend the remaining fund balance of \$363,260. The City has a Sidewalk Remediation Services project that is currently ongoing.
Finding Corrected During the Audit	LACMTA Program Manager granted the City an extension through December 31, 2019 to use the funds.

EXIT CONFERENCE

An exit conference was held on December 18, 2019 with the City of Compton representatives. Those in attendance were:

Vasquez and Company LLP representatives:
Cristy Canieda – Partner
Marialyn Salvador – Audit Senior Manager
Erica Ong – Audit Senior Auditor

City of Compton representatives:
Michael Antwine – Assistant City Manager
Rafaela King – Controller
Christopher Sutton – Deputy Controller

Matters discussed:

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

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

Rafaela King – Controller
Wanda Davis – Deputy Controller
Christopher Sutton – Deputy Controller
Michelle Blue – Accountant
John Strickland – Project Manager
Wendell Johnson – Public Works Director



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