



Metro[™]

**City of Industry
Annual Financial Report of its**

**Proposition A Local Return Fund
Proposition C Local Return Fund
Measure R Local Return Fund
Measure M Local Return Fund**

**As of and for the Years Ended June 30, 2019 and 2018
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 Industry, 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, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Measure M Local Return Fund (collectively, the Funds) of the City of Industry, California (the City) which comprise the Funds' balance sheets as of June 30, 2019 and 2018, and the related statements of revenues, expenditures and changes in fund balances 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 City'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 City'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 Measure M Local Return Fund of the City of Industry, California, as of June 30, 2019 and 2018, 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 Measure M Local Return Fund of the City and do not purport to, and do not present fairly the financial position of the City as of June 30, 2019 and 2018, 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 9, 2019 on our consideration of the City's internal control over the Funds' 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 Funds' 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 Funds' 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 Funds' financial reporting and compliance.

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

**Glendale, California
December 9, 2019**

City of Industry
Proposition A Local Return Fund
Balance Sheets

		June 30	
		2019	2018
ASSETS			
Cash and investment	\$	2,254,764	\$ 2,079,083
Interest receivable		9,732	10,333
Total assets	\$	<u>2,264,496</u>	<u>\$ 2,089,416</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	8,021	\$ 22,244
Due to General Fund		-	16,207
Total liabilities		<u>8,021</u>	<u>38,451</u>
Fund balance			
Restricted		<u>2,256,475</u>	<u>2,050,965</u>
Total fund balance		<u>2,256,475</u>	<u>2,050,965</u>
Total liabilities and fund balance	\$	<u>2,264,496</u>	<u>\$ 2,089,416</u>

See notes to Funds financial statements.

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

	Years ended June 30	
	2019	2018
Revenues		
Proposition A	\$ 8,834	\$ 8,226
Investment income	57,666	29,924
Proposition A fund exchange	275,000	587,500
Total revenues	341,500	625,650
Expenditures		
Various projects	135,683	1,262,977
Total expenditures	135,683	1,262,977
Excess (deficiency) of revenues over expenditures	205,817	(637,327)
Other financing source		
Transfer in - General Fund	-	307
Transfer out - General Fund	(307)	-
Total other financing source	(307)	307
Change in fund balance	205,510	(637,020)
Fund balance at beginning of year	2,050,965	2,687,985
Fund balance at end of year	\$ 2,256,475	\$ 2,050,965

See notes to Funds financial statements.

City of Industry
 Proposition A Local Return Fund
 Supplementary Information
 Schedule of Expenditures – Actual and LACMTA Approved Project Budget
 Year ended June 30, 2019
 (With Comparative Actuals for 2018)

Project Code	Project Name	2019			2018 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
160-01	Bus Stop Upgrades for ADA Compliance	\$ 525,000	\$ 6,734	\$ 518,266	\$ -
360-02	Commuter Rail Station Operation	150,000	96,077	53,923	97,264
370-01	Fairway Drive Grade Separation at Walnut Drive North	200,000	27,488	172,512	533,796
370-02	Fullerton Road Grade at Gale Avenue	200,000	5,384	194,616	631,917
	Total expenditures	\$ 1,075,000	\$ 135,683	\$ 939,317	\$ 1,262,977

See report of independent auditors.

City of Industry
Proposition A Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2019

Date Acquired	Description	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See report of independent auditors.

City of Industry
Proposition C Local Return Fund
Balance Sheets

		June 30	
		2019	2018
ASSETS			
Cash and investments	\$	16,767	\$ 9,440
Due from General Fund		3,809	5,919
Total assets	\$	<u>20,576</u>	<u>\$ 15,359</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	-	\$ -
Total liabilities		<u>-</u>	<u>-</u>
Fund balance			
Restricted		<u>20,576</u>	<u>15,359</u>
Total fund balance		<u>20,576</u>	<u>15,359</u>
Total liabilities and fund balance	\$	<u>20,576</u>	<u>\$ 15,359</u>

See notes to Funds financial statements.

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

	Years ended June 30	
	2019	2018
Revenues		
Proposition C	\$ 7,327	\$ 6,444
Investment income	-	6
Total revenues	7,327	6,450
Expenditures		
Annual Bus Stop ADA Improvement	2,110	-
Total expenditures	2,110	-
Excess of revenues over expenditures	5,217	6,450
Fund balance at beginning of year	15,359	8,909
Fund balance at end of year	\$ 20,576	\$ 15,359

See notes to Funds financial statements.

City of Industry
 Proposition C Local Return Fund
 Supplementary Information
 Schedule of Expenditures – Actual and LACMTA Approved Project Budget
 Year ended June 30, 2019
 (With Comparative Actuals for 2018)

Project Code	Project Name	2019		Variance Positive (Negative)	2018 Actual
		LACMTA Budget	Actual		
110-01	Annual Bus Stop ADA Improvement	\$ -	\$ 2,110 *	\$ (2,110)	\$ -
	Total expenditures	<u>\$ -</u>	<u>\$ 2,110</u>	<u>\$ (2,110)</u>	<u>\$ -</u>

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

See report of independent auditors.

City of Industry
Proposition C Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2019

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2019</u>
None		\$ -	\$ -	\$ -	\$ -
	Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See report of independent auditors.

City of Industry
Measure R Local Return Fund
Balance Sheets

		June 30	
		2019	2018
ASSETS			
Cash and investments	\$	-	\$ -
Total assets	\$	-	\$ -
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	-	\$ -
Total liabilities		-	-
Fund balance			
Restricted		-	-
Total fund balance		-	-
Total liabilities and fund balance	\$	-	\$ -

See notes to Funds financial statements.

City of Industry
Measure R Local Return Fund

Statements of Revenues, Expenditures and Changes in Fund Balance

		Years ended June 30	
		2019	2018
Revenues			
Measure R	\$	5,497	\$ 5,111
Total revenues		5,497	5,111
 Expenditures			
Street Repair and Maintenance		5,497	5,111
Total expenditures		5,497	5,111
Excess of revenues over expenditures		-	-
Fund balance at beginning of year		-	-
Fund balance at end of year	\$	-	\$ -

See notes to Funds financial statements.

City of Industry
Measure R Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2019
(With Comparative Actuals for 2018)

Project Code	Project Name	2019			2018 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
1.05	Street and Repair Maintenance	\$ 5,000	\$ 5,497	\$ (497)	\$ 5,111
	Total expenditures	<u>\$ 5,000</u>	<u>\$ 5,497</u>	<u>\$ (497)</u>	<u>\$ 5,111</u>

See report of independent auditors.

City of Industry
Measure R Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2019

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2019</u>
None		\$ -	\$ -	\$ -	\$ -
	Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See report of independent auditors.

City of Industry
Measure M Local Return Fund
Balance Sheets

		June 30	
		2019	2018
ASSETS			
Due from General Fund	\$	-	\$ 1,976
	Total assets	\$ -	\$ 1,976
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	-	-
	Total liabilities	-	-
Fund balance			
Restricted		-	1,976
	Total fund balance	-	1,976
	Total liabilities and fund balance	\$ -	\$ 1,976

See notes to Funds financial statements.

City of Industry
Measure M Local Return Fund

Statements of Revenues, Expenditures and Changes in Fund Balance

		Years ended June 30	
		2019	2018
Revenues			
Measure M		\$ 6,192	\$ 4,631
	Total revenues	6,192	4,631
Expenditures			
Street Repair and Maintenance		8,168	2,655
	Total expenditures	8,168	2,655
Excess (deficiency) of revenues over expenditures		(1,976)	1,976
Fund balance at beginning of year		1,976	-
Fund balance at end of year		\$ -	\$ 1,976

See notes to Funds financial statements.

City of Industry
Measure M Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2019
(With Comparative Actuals for 2018)

Project Code	Project Name	2019			2018 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
1.05	Street and Repair Maintenance	\$ 5,000	\$ 8,168	\$ (3,168)	\$ 2,655
	Total expenditures	<u>\$ 5,000</u>	<u>\$ 8,168</u>	<u>\$ (3,168)</u>	<u>\$ 2,655</u>

See report of independent auditors.

City of Industry
Measure M Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2019

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2019</u>
None		\$ -	\$ -	\$ -	\$ -
	Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See report of independent auditors.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The operations of the Proposition A Local Return Fund (PALRF), the Proposition C Local Return Fund (PCLRF), the Measure R Local Return Fund (MRLRF) and the Measure M Local Return Fund (MMLRF) (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 the county-wide ½ cent Measure R 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.

MMLRF is derived from 17% of the county-wide ½ cent Measure M 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.

Basis of Accounting and Measurement Focus

The PALRF, PCLRF, MRLRF and MMLRF are reported as Special Revenue Funds of the City and are 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.

Budgets and Budgetary Accounting

The budgeted amounts presented in this report for comparison to the actual amounts are based on budgets approved by LACMTA and are presented in accordance with accounting principles generally accepted in the United States of America.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Fund Balance Reporting

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

The PALRF, PCLRF, MRLRF and MMLRF report the following fund balance classification as of June 30, 2019 and 2018:

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

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

NOTE 2 ANNUAL FINANCIAL STATEMENTS

The financial statements reflect only the financial position and results of operations of the PALRF, PCLRF, MRLRF and MMLRF and do not purport to, and do not present fairly the City's financial position as of June 30, 2019 and 2018, 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.

Proposition A and Proposition C LR funds must be expended within three years of the last day of the fiscal year in which funds were originally allocated.

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.

Measure R LR funds must be expended within five years of the first day of the fiscal year in which funds were originally allocated or received.

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 MEASURE M LOCAL RETURN COMPLIANCE REQUIREMENTS

Measure M was approved by the voters of Los Angeles County on November 8, 2016 to improve transportation and ease traffic congestion consistent with the Los Angeles County Traffic Improvement Plan Ordinance approved by the Metro Board of Directors on June 23, 2016. The Measure M Ordinance specifies that LR funds be used exclusively for transportation purposes.

Measure M LR funds must be expended within five years of the first day of the fiscal year in which funds were originally allocated or received.

NOTE 5 MEASURE M LOCAL RETURN COMPLIANCE REQUIREMENTS (CONTINUED)

In accordance with *Measure M Local Return Program Guidelines*, funds received pursuant to these guidelines may only be used for Measure M Local Return approved programs. See accompanying Compliance Matrix.

NOTE 6 CASH AND INVESTMENTS

The PALRF, PCLRF, MRLRF and MMLRF cash balances were pooled with various other City funds for deposit and investment purposes. The share of each fund in the pooled cash account was separately maintained and interest income was apportioned to the participating funds based on the relationship of their average quarterly balances to the total of the pooled cash and investments.

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

NOTE 7 PROPOSITION A FUND EXCHANGE

As permitted by the Local Return Guidelines and as approved by LACMTA, the City entered into agreements with various cities to exchange the City's general fund monies with other cities' uncommitted Proposition A Local Return Fund monies. The fund exchanges which were recorded under PALRF were as follows:

Year ended June 30, 2019

<u>Agreement Date</u>	<u>City</u>	<u>Proposition A Local Funds Received</u>	<u>General Fund Rendered</u>
October 25, 2018	La Verne	\$ 275,000	\$ 203,500
		<u>\$ 275,000</u>	<u>\$ 203,500</u>

Year ended June 30, 2018

<u>Agreement Date</u>	<u>City</u>	<u>Proposition A Local Funds Received</u>	<u>General Fund Rendered</u>
October 2, 2017	La Verne	\$ 275,000	\$ 198,000
March 20, 2018	Cudahy	312,500	225,000
		<u>\$ 587,500</u>	<u>\$ 423,000</u>

NOTE 8 SUBSEQUENT EVENTS

The City has evaluated subsequent events through December 9, 2019, the date the financial statements were available to be issued, and concluded no events have occurred that require disclosure or adjustments to the Funds 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 Industry, 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 Measure M Local Return Fund (collectively, the Funds) of the City of Industry, 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 9, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the Funds' financial statements, we considered the City's internal control over the Funds' 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 Funds' financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund and Measure M Local Return 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 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 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.

**Glendale, California
December 9, 2019**

COMPLIANCE SECTION

Report of Independent Auditors on Compliance

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

Report on Compliance

We have audited the compliance of the City of Industry, California (the City) with the Proposition A and Proposition C Local Return Guidelines, Measure R Local Return Guidelines and Measure M Local Return Guidelines, (collectively, 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 Proposition A Local Return Program, Proposition C Local Return Program, Measure R Local Return Program and Measure M Local Return Program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance 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 Industry, California complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2019.



Other Matters

The results of our auditing procedures disclosed instances of noncompliance with the requirements, which are described in the accompanying Schedule of Findings and Questioned Costs as Findings #2019-001 to #2019-002. 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 Schedule of Findings and Questioned Costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the City 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 with the requirements, 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 with the requirements that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding 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 #2019-002, 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 "Vaguez & Company LLP".

**Glendale, California
December 9, 2019**

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

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
A. Proposition A and Proposition C Local Return Funds					
1. Uses the State Controller's Uniform System of Accounts and Records.	X				
2. Timely use of funds.	X				
3. Funds expended were approved and have not been substituted for property tax.		X			See Finding #2019-001
4. Expenditures that exceeded 25% of approved project budget have approved amended Project Description Form (Form A)	X				
5. Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.			X		No administrative expenses were charged to LR funds.
6. All on-going and carryover projects were reported in Form B.	X				
7. Annual Project Summary Report (Form B) was submitted timely.	X				
8. Annual Expenditure Report (Form C) was submitted timely.	X				
9. Cash or cash equivalents are maintained.	X				
10. Accounting procedures, record keeping and documentation are adequate.		X		PALRF - \$88,148	See Finding #2019-002
11. Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	X				
12. Local Return Account is credited for reimbursable expenditures.	X				
13. Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.			X		
14. Assurances and Understandings form was on file.	X				
15. Recreational Transit Form was submitted timely.			X		

See report of independent auditors on compliance.

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

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
B. Measure R Local Return Fund					
1. Funds were expended for transportation purposes.	X				
2. Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	X				
3. Signed Assurances and Understandings on file.	X				
4. Separate Measure R Local Return Account was established.	X				
5. Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	X				
6. Funds were expended with LACMTA's approval.	X				
7. Expenditure Plan (Form One) was submitted timely.	X				
8. Expenditure Report (Form Two) was submitted timely.	X				
9. Timely use of funds.	X				
10. Administrative expenses are within the 20% cap.			X		No administrative expenses were charged to LR funds.
11. Fund exchanges were approved by LACMTA.			X		
12. A separate account was established for Capital reserve funds and Capital reserve was approved by LACMTA.			X		
13. Recreational transit form was submitted timely.			X		

See report of independent auditors on compliance.

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

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
C. Measure M Local Return Fund					
1. Funds were expended for transportation purposes.	X				
2. Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a fund shortfall.	X				
3. Signed Assurances and Understandings on file.	X				
4. Separate Measure M Local Return Account was established.	X				
5. Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure M Local Return Account.	X				
6. Funds were expended with LACMTA's approval.	X				
7. Expenditure Plan (Form M-One) was submitted timely.	X				
8. Expenditure Report (Form M-Two) was submitted timely.	X				
9. Timely use of funds.	X				
10. Administrative expenses are within the 20% cap.			X		No administrative expenses were charged to LR funds.
11. Fund exchanges were approved by LACMTA.			X		
12. A separate account was established for Capital reserve funds and Capital reserve was approved by LACMTA.			X		
13. Recreational transit form was submitted timely.			X		

See report of independent auditors on compliance.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

PCLRF: Finding #2019-001

Compliance Reference	Section I(C) of the Proposition A and C Local Return Guidelines states that, "Jurisdictions shall submit for approval a Project Description Form (Form A) prior to the expenditure of funds for: 1) a new project; 2) a new route; 3) a 25 percent change (increase or decrease) in route or revenue vehicle miles for an established LR funded transit service; 4) a 0.75 miles or greater service change that duplicates/overlays an existing transit service; or 5) a 25 percent or greater change in an approved LR project budget or scope on all operating or capital LR projects."
Condition	<p>The City claimed expenditures under the PCLRF Project Code 110-01, Annual Bus Stop ADA Improvement, totaling \$2,110 with no prior approval from LACMTA.</p> <p>Although we found the expenditures to be eligible for Local Return funding, this project had no prior approval from LACMTA.</p>
Cause	Due to timing of change of administration, the approval for expenditures was not timely followed upon. Current management reached the same conclusion as drawn by the auditors that these were eligible for funding, but ran out of time getting approval, or otherwise risked losing the funding all together.
Effect	Proposition C LR funds were expended towards project expenditures without prior approval by the LACMTA.
Recommendation	We recommend for the City to establish procedures and controls to ensure that approval is obtained from LACMTA prior to spending on any Local Return-funded projects.
Management Response	We agreed with the recommendation.
Findings Resolved During the Audit	LACMTA Program Manager granted a retroactive approval of project's budget on November 20, 2019. No follow up is required.

PALRF: Finding #2019-002

<p>Compliance Reference</p>	<p>Section V of Proposition A & C Local Return Guidelines states that, "It is the Jurisdictions responsibility to maintain proper accounting records and documentation to facilitate the performance of the audit prescribed in these guidelines..."</p> <p>Also, Section B of the Assurance and Understanding regarding receipt and use of Proposition A Local Return Funds states that, " For projects to be funded in part or in whole with Proposition A and/or Proposition C funds, recipient of local return funds should comply with all applicable federal, state, and local laws and regulations, including compliance with the procurement requirements".</p> <p>Further, Section 9 (D) of the City's procurement policy states that, "Formal bids will be published in a newspaper of general circulation in the City, posted in at least three public places in the City designated by ordinance for the posting of public notices, and posted on the City's website. The Procurement officer will also mail a copy to anyone who has requested to be notified. All notices must be published, posted or mailed at least 10 days before the date specified for the opening of bids. All formal bids must be sealed and will be publicly opened and read at the date, time, and place indicated in the published notice."</p>
<p>Condition</p>	<p>During the fiscal year 2019, the City made payments to a vendor, Industry Security Services, under PALRF project code 360-02, Commuter Rail Station Operation Project, totaling \$88,148. Payments were supported by copies of cancelled checks and approved invoices by authorized officials.</p> <p>During our review of the City's compliance with the procurement guidelines, we noted that the City was not able to provide documents to support its compliance with the procurement policies and procedures which includes requests for bids or proposals from vendors and bid evaluation documentation.</p>

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

PALRF: Finding #2019-002 (Continued)

Cause	The current contract with Industry Security Services was approved in 2007, during a time which the City's procurement policy was either informal, verbal or referred to municipal code. Then-City Council approved the contract during one of the council meetings. The contract is subject to cancellation upon 30-day written notice without cause or 48-hour written notice with cause. The current Procurement Policy was adopted in June 2013, and it governs the retainage of consultant selection for professional services and specialty services under its section 12 and 13. Certain contracts entered prior to the adoption of the current policy, such as this one, has not been made fully in compliance of the procedures.
Effect	For fiscal year 2019, the amount paid to security contract with Industry Security Services without following the City's procurement policy resulted in questioned costs of \$88,148.
Recommendation	We recommend for the City to fully reimburse its PALRF account the amount of \$88,148, including interest. We further recommend that the City establish controls to ensure that all contracts are reviewed periodically, and that proper documentation is maintained to support compliance with the procurement policies and procedures at all times.
Management Response	City's management is in the process of reviewing all agreements to bring them in compliance with the current procurement policies and procedures.

EXIT CONFERENCE

An exit conference was held on December 9, 2019 with the City of Industry representatives. Those in attendance were:

Vasquez and Company LLP representative:
Marialyn Salvador – Audit Senior Manager

City of Industry representatives:
Yamini Pathak – Finance Director
Julie Hardt – Accounting Technician III

Matters discussed:

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

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

Yamini Pathak – Finance Director
Julie Hardt – Accounting Technician III



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