



**METROLINK®**

**Southern California Regional Rail Authority (SCRRA)**

**Report on Compliance with the Requirements of the  
Metrolink Program by SCRRA  
*For the Year Ended June 30, 2017***

**under Memorandum of Understanding (MOU) No. P0SCRRA27  
with the Los Angeles County Metropolitan Transportation Authority  
(LACMTA)**

**Southern California Regional Rail Authority (SCRRA)**

**Report on Compliance with the Requirements of the  
Metrolink Program by SCRRA**

*For the Year Ended June 30, 2017*

**under Memorandum of Understanding (MOU) No. P0SCRRA27  
with the Los Angeles County Metropolitan Transportation Authority  
(LACMTA)**

	<u>PAGE</u>
<b>FINANCIAL SECTION</b>	
Independent Accountant's Report	1
Schedule of Subsidy Allocation by County	3
Notes to Schedule of Subsidy Allocation by County	4
<b>EXHIBITS</b>	
Exhibit I: Reconciliation of the Schedule of Subsidy Allocation to CAFR	8
Exhibit II: Methods of Allocation Used and the Types of Revenues and Expenses	9
Exhibit III: Line Item Allocation Methodology	10
Exhibit IV: Schedule of Funds Received for Proposition C 10% and Measure R 3%	11
Exhibit V: Comparative Analysis of Unearned Revenue	12
Exhibit VI: Schedule of LACMTA's Contribution to the Self Insurance Reserve	13
Exhibit VII: Schedule of LACMTA's Allocation of Revenue from Right of Way – Security Cost	14
<b>COMPLIANCE MATRIX</b>	15
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b>	18
<b>EXIT CONFERENCE</b>	20

**FINANCIAL SECTION**

## **Independent Accountant's Report**

### **To the Board of Directors of the Los Angeles County Metropolitan Transportation Authority (LACMTA)**

#### **Report on the Examination of Metrolink Program by SCRRA**

We have examined the Southern California Regional Rail Authority's (SCRRA) compliance with the following requirements identified in the Memorandum of Understanding (MOU) No. P0SCRRA27 between SCRRA and the Los Angeles County Metropolitan Transportation Authority (LACMTA), the SCRRA Adopted Budget for the year ended 2016/2017 and other guidelines issued related to the SCRRA Program (collectively, the Guidelines). The following requirements are applicable to SCRRA's allocation of revenues and expenditures to LACMTA for the year ended June 30, 2017:

1. LACMTA's share in the Schedule of Subsidy Allocation by County is free of material discrepancies.
2. The total revenues and expenditures shown in the Schedule of Subsidy Allocation by County provided by SCRRA are in agreement, in all material respects, with the SCRRA's Comprehensive Annual Financial Report (CAFR). (See Exhibit I)
3. The allocation methods used by SCRRA to allocate revenues and expenditures are in conformance with the allocation methods adopted by the joint authorities and are applied consistently to allocate revenues and expenses. (See Exhibits II and III)
4. The Proposition C 10% and Measure R 3% funds received from LACMTA are recorded in SCRRA's books. (see Exhibit IV)
5. The Proposition C 10% and Measure R 3% funds received are expended for purposes identified in the SCRRA's Annual Work Program, capital grants, other operating assistance, adopted language MOU(s) and the SCRRA adopted budget.
6. LACMTA's contribution to the Self Insurance Reserve (SIR) was made in accordance with the appropriate member agency allocation formula, and that claims against the SIR were appropriate uses of funds. (See Exhibit VI)
7. SCRRA's third party participation contracts do not materially impact LACMTA's share of revenues and expenditures. (See Exhibit I)
8. SCRRA complied with all applicable ordinances.



9. The following requirements are not applicable to SCRRA's allocation of revenues and expenditures to LACMTA for the year ended June 30, 2017 because there were no transactions that have occurred relating to these requirements. Accordingly, no procedures were performed on these requirements.
  - a. Metro's contribution to the annual capital replacement program is properly accounted for, is bearing interest, and is solely allocated for this purpose.
  - b. Metro's allocation of revenue from interest income on lease proceeds is consistent with the allocation formula adopted in the budget.

### ***Management's Responsibility***

Management of SCRRA is responsible for compliance with these requirements, as well as the compliance requirements shown in the Compliance Matrix.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on SCRRA's compliance based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting SCRRA's compliance and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on SCRRA's compliance with specified requirements.

### ***Opinion***

In our opinion, SCRRA complied, in all material respects, with the aforementioned requirements established in the Guidelines, for the year ended June 30, 2017.

### ***Other Matters***

The results of our examination procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Guidelines and which are described in the accompanying Compliance Matrix. Our opinion is not modified with respect to these matters.

Responses by the SCRRA to the noncompliance findings identified in our examination are described in the accompanying Compliance Matrix. The SCRRA's responses were not subjected to the procedures applied in the examination of compliance, and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of SCRRA and LACMTA and is not intended to be and should not be used by anyone other than these specified parties.

Los Angeles, California  
April 27, 2018

**Southern California Regional Rail Authority (SCRRA)**  
**MOU No. P0SCRRA27**  
**Schedule of Subsidy Allocation by County**  
**(Dollar Amounts in Thousands)**  
**Year ended June 30, 2017**

	<u>TOTAL</u>	<u>LACMTA</u>	<u>OCTA</u>	<u>RCTC</u>	<u>SANBAG</u>	<u>VCTC</u>
<b>OPERATING REVENUES</b>						
Fares	\$ 83,373	\$ 41,308	\$ 22,146	\$ 7,725	\$ 10,230	\$ 1,964
Dispatching	2,016	981	707	12	56	260
Maintenance-of-Way	12,384	7,208	2,483	647	1,530	516
Miscellaneous	761	360	164	90	99	48
<b>Total Operating Revenues</b>	<u>98,534</u>	<u>49,857</u>	<u>25,500</u>	<u>8,474</u>	<u>11,915</u>	<u>2,788</u>
<b>OPERATING EXPENSES</b>						
Train operations and services	131,960	66,686	31,126	14,736	13,808	5,604
Maintenance-of-Way	38,615	20,875	7,711	2,589	5,167	2,273
Personal liability/property damage	16,880	9,039	4,085	1,234	1,965	557
Administration and services	34,909	16,664	6,262	5,047	3,521	3,415
<b>Total Operating Expenses</b>	<u>222,364</u>	<u>113,264</u>	<u>49,184</u>	<u>23,606</u>	<u>24,461</u>	<u>11,849</u>
<b>OPERATING LOSS</b>	(123,830)	(63,407)	(23,684)	(15,132)	(12,546)	(9,061)
<b>FY2016/2017 MEMBER SUBSIDY INVOICED</b>	<u>135,935</u>	<u>68,711</u> *	<u>27,028</u>	<u>16,768</u>	<u>14,161</u>	<u>9,267</u>
<b>SURPLUS - BEFORE BNSF LEASE</b>	<u>12,105</u>	<u>5,304</u>	<u>3,344</u>	<u>1,636</u>	<u>1,615</u>	<u>206</u>
Member BNSF lease subsidies	6,055	3,287 *	1,267	577	680	244
Less: BNSF leased locomotive costs	5,669	3,089	1,184	544	622	230
<b>SURPLUS - BNSF LEASE</b>	<u>386</u>	<u>198</u>	<u>83</u>	<u>33</u>	<u>58</u>	<u>14</u>
<b>NET SURPLUS</b>	<u>\$ 12,491</u>	<u>\$ 5,502</u>	<u>\$ 3,427</u>	<u>\$ 1,669</u>	<u>\$ 1,673</u>	<u>\$ 220</u>

\* includes \$206,000 surplus from MOUPOSCRRA26.

*See notes to Schedule of Subsidy Allocation by County.*

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

SCRRA is an independent entity created in August 1991 through a joint exercise of powers agreement (JPA). SCRRA began operating the “Metrolink” regional commuter rail system in October 1992. The member agencies of the JPA are (1) Los Angeles County Metropolitan Transportation Authority (LACMTA), (2) Orange County Transportation Authority (OCTA), (3) Riverside County Transportation Commission (RCTC), San Bernardino Associated Governments (SANBAG), and (4) Ventura County Transportation Commission (VCTC). The member agencies acquired the rail network in existence at the time the JPA was established for use in Metrolink’s commuter rail operations. This railroad network is not included as part of SCRRA’s railroad network capital assets. The member agencies retain title to and ownership of those assets. As part of the JPA, SCRRA is responsible for the related maintenance and operation of members’ assets and rail right-of-way used in operations.

In addition, certain members retain responsibility to maintain segments of their railroad network. The Metrolink railroad network consists of capital assets created as a result of new capital construction and major capital improvement projects. Currently, there are 534 route miles with 59 stations in the Metrolink system throughout Los Angeles, Orange, Riverside, San Bernardino, Ventura, and San Diego counties.

SCRRA is governed by a Board of Directors comprised of 11 members appointed by the voting members of the JPA. The member agencies with their respective number of votes are as follows:

Los Angeles County Metropolitan Transportation Authority (LACMTA)	4
Orange County Transportation Authority (OCTA)	2
Riverside County Transportation Commission (RCTC)	2
San Bernardino Associated Governments (SANBAG)	2
Ventura County Transportation Commission (VCTC)	1

SCRRA is not considered to be a component unit of any other reporting entity.

**Basis of Accounting**

Revenues and expenditures are accounted for using the accrual basis of accounting. Revenues from grants are recognized when expenditures are incurred. Expenditures are generally recognized when the related liabilities are incurred.

**Revenue Recognition**

SCRRA receives approximately half of its funding from fares and other operating revenues, and the balance of its funding comes from its member agencies. The majority of sources for transportation funds in these counties are local sales taxes (with the exception of Ventura County), State Rail Bond funds, State Transit Assistance funds, State Highway Account funds, State Transit Capital Improvement funds, and Federal Transit Administration Capital funds.



**Southern California Regional Rail Authority (SCRRA)**  
**MOU No. P0SCRRA27**  
**Notes to Schedule of Subsidy Allocation by County**  
**Year ended June 30, 2017**

---

**NOTE 2      MEMORANDUM OF UNDERSTANDING (MOU)**

On December 5, 2016, SCRRA (grantee) and the Los Angeles County Metropolitan Transportation Authority (LACMTA) (grantor) entered into MOU No. P0SCRRA27, which is effective beginning July 1, 2016 through June 30, 2017, for the purpose of providing funding to SCRRA during the fiscal year (FY) 2016/2017 for LACMTA's financial commitments to the FY 2016/2017 budget as required by the JPA. LACMTA's Board of Directors approved its financial commitments on June 23, 2016.

In accordance with MOU No. P0SCRRA27, LACMTA will make available to SCRRA the following allocation of funds (Funds) for the LACMTA's share of the FY 2016/2017 budget in the amounts of:

- a. \$71,795,000\* for rail operations, using new Proposition C 10% funds paid according to the following schedule, unless altered by mutual written agreement:

July 15, 2016	\$ 24,698,878
October 1, 2016	15,698,707
January 1, 2017	15,698,707
April 1, 2017	<u>15,698,708</u>
Total \$	<u><u>71,795,000</u></u>

\* The \$206,000 budget increase submitted by SCRRA as part of the revised budget on May 23, 2016 is going to be deducted from FY 2015/2016 surplus.

- b. \$10,000,000 for new rehabilitation and renovation projects and \$18,381,025 for the urgent structure and rail tie rehabilitation projects, using new Measure R 3% funds (as amended).
- c. \$2,360,551 for right-of-way security, using new Proposition C 10% funds.
- d. \$618,000 for Capital Project PSRs, using new Measure R 3% funds.
- e. \$100,000 for one-time special events, using new Proposition C 10% funds.

The FY 2016/2017 member subsidy invoiced to LACMTA of \$68.7 million and BNSF lease subsidy of \$3.1 million reported in the Schedule of Subsidy Allocation by County is part of the above funds allocated to SCRRA.

**Southern California Regional Rail Authority (SCRRRA)**  
**MOU No. P0SCRRRA27**  
**Notes to Schedule of Subsidy Allocation by County**  
**Year ended June 30, 2017**

---

**NOTE 2      MEMORANDUM OF UNDERSTANDING (CONTINUED)**

Details of the receipts and uses of funds for the year ended June 30, 2017 are as follows:

Fund	Description	[a] Approved Funding	[b] Receipts	[a - b] Funding Balance	[c] Expenditures	[b - c] Surplus/ (Deficit)
Prop C 10%	Operations	\$ 71,795,000	\$ 71,795,000	\$ -	\$ 66,497,200	\$ 5,297,800
Prop C 10%	Right of Way	2,360,551	2,360,551	-	2,358,526	2,025 **
Measure R 3%	Rehabilitation and renovation	28,381,025	-	28,381,025	1,670,233	(1,670,233)
Measure R 3%	Capital Project PSRs	618,000	-	618,000	-	-
Prop C 10%	Special Event	100,000	-	100,000	55,394	(55,394) ***
		<u>\$ 103,254,576</u>	<u>\$ 74,155,551</u>	<u>\$ 29,099,025</u>	<u>\$ 70,581,353</u>	<u>\$ 3,574,198</u>

\*\* See Exhibit VII.

\*\*\* \$55,394 was billed and uncollected as of June 30, 2017.

**Southern California Regional Rail Authority (SCRRRA)**  
**MOU No. P0SCRRRA27**  
**Notes to Schedule of Subsidy Allocation by County**  
**Year ended June 30, 2017**

**NOTE 3 STATUS OF PRIOR YEAR MEMORANDUM OF UNDERSTANDING**

<b>MOU# P0SCRRRA26</b>			<i>[a]</i>	<i>[b]</i>	<i>[-a - b]</i>	<i>[c]</i>	<i>[-b - c]</i>
<b>Fund</b>	<b>Description</b>	<b>Year</b>	<b>Approved Funding</b>	<b>Receipts</b>	<b>Funding Balance</b>	<b>Expenditures</b>	<b>Surplus/ (Deficit)</b>
Prop C 10%	Operations	2016	\$ 71,795,790	\$ 71,795,790	* \$ -	\$ 66,468,865	\$ 5,326,925
		2017	-	-	-	-	-
Prop C 10%	Right of Way	2016	2,578,128	2,578,128	-	2,237,060	341,068
		2017	-	-	-	-	-
Prop C 10%	Capital Project PSRs	2016	475,000	-	475,000	-	-
		2017	-	189,619	285,381	210,421	(20,802)
Prop C 10%	Special Event	2016	100,000	-	100,000	19,953	(19,953)
		2017	-	19,953	80,047	-	19,953
			<u>\$ 74,948,918</u>	<u>\$ 74,583,490</u>	<u>\$ 365,428</u>	<u>\$ 68,936,299</u>	<u>\$ 5,647,191</u>

\* includes \$3,013,939 surplus from deferred revenue  
Note: No Measure R funding under P0SCRRRA26.

<b>MOU# P0SCRRRA25</b>			<i>[a]</i>	<i>[b]</i>	<i>[-a - b]</i>	<i>[c]</i>	<i>[-b - c]</i>
<b>Fund</b>	<b>Description</b>	<b>Year</b>	<b>Approved Funding</b>	<b>Receipts</b>	<b>Funding Balance</b>	<b>Expenditures</b>	<b>Surplus/ (Deficit)</b>
Prop C 10%	Operations	2015	\$ 59,683,000	\$ 58,596,771	\$ 1,086,229	\$ 59,029,731	\$ (432,960)
		2016	-	-	1,086,229	-	-
		2017	-	-	1,086,229	-	-
Prop C 10% PTMISEA Measure R 3%	Rehabilitation and renovation	2015	16,375,000	-	16,375,000	35,633	(35,633)
		2016	-	6,461,650	9,913,350	-	6,461,650
		2017	-	5,252,032	4,661,318	3,435,875	1,816,157
Prop C 10%	Right of Way	2015	2,305,108	1,728,831	576,277	2,173,110	(444,279)
		2016	-	576,277	-	-	576,277
		2017	-	-	-	-	-
Prop C 10%	Special Event	2015	100,000	49,217	50,783	-	49,217
		2016	-	39,677	11,106	-	39,677
		2017	-	-	-	-	-
			<u>\$ 78,463,108</u>	<u>\$ 72,704,455</u>	<u>\$ 5,758,653</u>	<u>\$ 64,674,349</u>	<u>\$ 8,030,106</u>

## EXHIBITS

**Southern California Regional Rail Authority (SCRRA)**  
**MOU No. P0SCRRA26**  
**Reconciliation of the Schedule of Subsidy Allocation to CAFR**  
**(Dollar Amounts in Thousands)**  
**Year ended June 30, 2017**

	<u>Revenues</u>	<u>Expenses</u>
Per Schedule of Subsidy Allocation	\$ 98,534	\$ 228,033
 <u>Reconciling items:</u>		
OPERATING:		
Fare Revenues	2	-
Dispatching	-	-
Maintenance of Way	3	(21)
Train Operations	(67)	3,066
Third party agreements <sup>{1}</sup>	17,237	19,602
Non-operating items	(24)	-
Rehabilitation and renovation - capital <sup>{1}</sup>	-	20,815
Miscellaneous	(16)	22
Public liability and property damage	5	4
Depreciation <sup>{1}</sup>	-	43,703
Benefit for claims, judgements, and other	-	(900)
Per CAFR - Operating Revenues and Expenses	<u>\$ 115,674</u>	<u>\$ 314,324</u>

## Notes:

<sup>{1}</sup> Not allocated to the members

**Note:**

Revenues and expenses in the Schedule of Subsidy Allocation by County do not include revenues and expenses relating to Third-party participation agreements.

Third-party participation agreements are items such as charter train services, construction of major capital facilities on behalf of third parties, and flagging personnel provided by SCRRA for the safety of non-SCRRA personnel accessing the rail right-of-way. SCRRA's policy regarding third-party agreements is that they should be self-supporting. Projects are billed up-front to third parties and a reconciliation of actual costs against payments are reconciled at project completion. The excess of expenses over revenue is attributed by SCRRA to advance collections in prior years as well as for billing adjustments related to overhead.

**Southern California Regional Rail Authority (SCRRA)**  
**MOU No. P0SCRRA27**  
**Methods of Allocation Used and the Types of Revenues and Expenses**  
**Year ended June 30, 2017**

Budget Item	FY07-08 Agreed Allocation
Train Mile Allocation	
Train Operations	Train Miles - Current
Fuel	Train Miles - Current
Operating Contingency	Train Miles - Current
Direct to Line Segments/Territories	
Rail Agreements	Direct to Lines/Then to Members
MOW - Line Segments	Train Miles of Service on Territory
MOW - Extra-Ordinary maintenance	Train Miles of Service on Territory
Holiday Trains	Direct to Lines/Then to Members
Amtrak Transfers	Direct to Lines/Then to Members
Route Miles Dispatched	
Dispatching	Route Miles Dispatched
Ridership/Revenue Distributions	
Transfers to other Operators	Ridership/Revenue Distribution
Supplemental Additional Security	Ridership/Revenue Distribution
Base Allocation	
Equipment Maintenance	75% Train Miles - Lagged/25% Unduplicated Stations
Operating Contingency (Bombardier)	Train Miles - Lagged
Non-Scheduled Rolling Stock Repairs	Train Miles - Lagged
Operating Facilities Maintenance	Train Miles - Lagged
Other Operating Train Services	Unduplicated Route Miles (excl SD Co)
Security - Sheriff	Train Miles - Lagged
Security - Guards	Unduplicated Route Miles (excl SD Co)
Public Safety Program	Unduplicated Route Miles (excl SD Co)
Utilities/Leases	Unduplicated Route Miles (excl SD Co)
Passenger Relations - Call Boxes	Unduplicated Stations
Contingency (Non-Train Operating)	Unduplicated Route Miles (excl SD Co)
TVM Maintenance/Revenue Collection	TVMs
Station Maintenance - Non-Union Station	Unduplicated Stations
Station Maintenance - Union Station	Revenue Moves thru LAUS
Passenger Service Representatives	Unduplicated Route Miles (excl SD Co)
Passenger Relations - Call Center/Other	Ridership Distribution Lagged
Marketing/Market Research	Ridership Distribution Lagged
Media & External communications	Unduplicated Route Miles (excl SD Co)
Liability/Property/Auto	Train Miles - Lagged
Claims	Train Miles - Lagged
Claims Administration	Train Miles - Lagged
Salaries & Fringe Benefits	Unduplicated Route Miles (excl SD Co)
Non- Labor Costs	Unduplicated Route Miles (excl SD Co)
Allocated Overhead	Unduplicated Route Miles (excl SD Co)
Services	Unduplicated Route Miles (excl SD Co)

**Southern California Regional Rail Authority (SCRRRA)**

**MOU No. P0SCRRRA27**

**Line Item Allocation Methodology**

**Year ended June 30, 2017**

---

The FY 2016-2017 Budget was created using the Line Item Allocation Methodology outlined in Exhibit II. The sum of all individual line item allocations resulted in a total expense bottom line percentage allocation rate.

**Southern California Regional Rail Authority (SCRRRA)**  
**MOU No. P0SCRRRA27**  
**Schedule of Funds Received for Proposition C 10% and Measure R 3%**  
**(Dollar Amounts in Thousands)**  
**Year ended June 30, 2017**

---

		<u>Receipts for</u> <u>FY 2016-2017</u>
Proposition C 10% Fund		
P0SCRRRA21	\$	142
P0SCRRRA22		924
P0SCRRRA23		3,924
P0SCRRRA24		6,832
P0SCRRRA25		5,252
P0SCRRRA26		210
AVLFARERED		1,015
P0SCRRRA27		<u>74,155</u>
Total		<u>92,454</u>
Measure R 3% Fund		
MRSCCRA01		3,008
MRSCCRA02		80
MRSCCRA07		3,546
VANNUYS01		43
VANNUYS02		80
MRBHAPEDBG		1
MRLOCOS		2,518
MRSCCRA10		342
MRSCCRA11		547
MRSCCRA12		357
MRBRANFORD		19
MRROTEMSET		2,522
SCRRAADV		285
MRBHAHWAY		27
LHWSCRRA		37
SR14		<u>356</u>
Total		<u>13,768</u>
Total funds received	\$	<u><u>106,222</u></u>



**Southern California Regional Rail Authority (SCRRA)**  
**MOU No. P0SCRRA27**  
**Comparative Analysis of Unearned Revenue**  
**(Dollar Amounts in Thousands)**  
**Year ended June 30, 2017**

	<u>LACMTA</u>	<u>OCTA</u>	<u>RCTC</u>	<u>SANBAG</u>	<u>VCTC</u>	<u>OTHER</u>	<u>TOTAL</u>
<b>Unearned revenue at June 30, 2015</b>	<b>\$ 10,351</b>	<b>\$ 5,808</b>	<b>\$ 435</b>	<b>\$ 3,886</b>	<b>\$ (14,714)</b>	<b>\$ 38,074</b>	<b>\$ 43,840</b>
Subsidies invoices:							
Operating	62,169	24,270	13,244	12,001	3,062	-	114,746
Public liability and property damage	9,627	4,257	1,342	2,153	700	-	18,079
Capital	-	31	-	-	-	2,538	2,569
Subsidies recognized							
Operating	(57,997)	(21,228)	(12,618)	(11,164)	(8,257)	-	(111,264)
Public liability and property damage	(8,472)	(3,746)	(1,181)	(1,894)	(616)	-	(15,909)
Capital	(1,385)	(145)	-	(124)	(26)	(962)	(2,642)
Other	-	-	-	-	-	(899)	(899)
Uses of Operating Surplus	(3,014)	(2,002)	-	-	-	-	(5,016)
Interest Allocation	8	-	-	1	1	155	165
Adjustments:							
FY 2015 VCTC/Metro Swap	-	-	-	-	10,159	-	10,159
<b>Unearned revenue at June 30, 2016</b>	<b>\$ 11,287</b>	<b>\$ 7,245</b>	<b>\$ 1,222</b>	<b>\$ 4,859</b>	<b>\$ (9,691)</b>	<b>\$ 38,906</b>	<b>\$ 53,828</b>
Subsidies invoices:							
Operating	63,009	24,232	16,117	12,887	8,957	-	125,202
Public liability and property damage	8,989	4,062	1,228	1,954	554	-	16,787
Capital	-	-	-	-	-	7,703	7,703
Other	475	-	-	-	-	-	475
Subsidies recognized							
Operating	(57,458)	(20,782)	(14,442)	(11,203)	(8,733)	-	(112,618)
Public liability and property damage	(9,039)	(4,085)	(1,234)	(1,965)	(557)	-	(16,880)
Capital	182	920	(31)	517	(63)	(15,729)	(14,204)
Other	4	-	-	-	-	(134)	(130)
Uses of Operating Surplus	(385)	(1,682)	(831)	-	-	-	(2,898)
Interest Allocation	9	-	-	2	1	223	235
Adjustment - FY 2016 expense allocation	(198)	(80)	181	(174)	271	-	-
Adjustment - VCTC/LACMTA swap	-	-	-	-	4,316	-	4,316
Adjustment - VCTC/LACMTA fund exchange	-	-	-	-	5,803	-	5,803
<b>Unearned revenue at June 30, 2017</b>	<b>\$ 16,875</b>	<b>\$ 9,830</b>	<b>\$ 2,210</b>	<b>\$ 6,877</b>	<b>\$ 858</b>	<b>\$ 30,969</b>	<b>\$ 67,619</b>

Note: See Finding #2017-001.

**Southern California Regional Rail Authority (SCRRA)**  
**MOU No. P0SCRRRA27**  
**Schedule of LACMTA's Contribution to the Self Insurance Reserve**  
**(Dollar Amounts in Thousands)**  
**Year ended June 30, 2017**

	<u>TOTAL</u>	<u>LACMTA</u>	<u>OCTA</u>	<u>RCTC</u>	<u>SANBAG</u>	<u>VCTC</u>
Member insurance subsidy	\$ 16,786	\$ 8,989	\$ 4,062	\$ 1,227	\$ 1,954	\$ 554
Insurance expense						
Liability/Property/Auto	11,061	5,923	2,677	809	1,287	365
Claims/SI	5,115	2,739	1,238	374	595	169
Claims administration	703	377	170	51	82	23
Total insurance expense	<u>16,879</u>	<u>9,039</u>	<u>4,085</u>	<u>1,234</u>	<u>1,964</u>	<u>557</u>
Deficit	<u>\$ (93)</u>	<u>\$ (50)</u>	<u>\$ (23)</u>	<u>\$ (7)</u>	<u>\$ (10)</u>	<u>\$ (3)</u>

**Southern California Regional Rail Authority (SCRRA)**  
**MOU No. P0SCRRA27**  
**Schedule of LACMTA's Allocation of Revenue from Right of Way – Security Cost**  
**(Dollar Amounts in Thousands)**  
**Year ended June 30, 2017**

---

Receipts from LACMTA for Right-of-Way Security	
July 15, 2016	\$ 590
October 15, 2016	590
January 1, 2017	590
April 1, 2017	590
Total receipts	<u>2,360</u>
Right-of-Way Security Expenditures	
Quarter 1	590
Quarter 2	590
Quarter 3	589
Quarter 4	589
Total expenditures	<u>2,358</u>
Surplus	<u>\$ 2</u>

## COMPLIANCE MATRIX

**Southern California Regional Rail Authority (SCRRA)**  
**MOU No. P0SCRRA27**  
**Compliance Matrix**  
**Year ended June 30, 2017**

Compliance Requirement	In Compliance			Questioned Costs	If no, provided details and management response
	Yes	No	N/A		
1. SCRRA submitted its FY 2016-2017 Preliminary Budget on April 29, 2016, and the revised budget on May 23, 2016, to the LACMTA and other member agencies of the SCRRA.	X				
2. Right of Way security funds, not to exceed \$2,360,551, will be paid for additional right-of-way security ("ROW Security") on all LACMTA owned right-of-way upon which Metrolink service operates.	X				
3. SCRRA should provide the ROW Security to LACMTA through its contractor LASD.	X				
4. SCRRA shall ensure that LASD complies with all insurance requirements of the LASD/SCRRA contract. Further, SCRRA represents that it is self-insured to the extent required to cover its indemnification obligation.	X				
5. Rehabilitation and renovation funds in the amount of \$28,381,025 in Measure R 3% funds will be paid for FY 2016-2017 new projects as specified in the Attachment A of MOU No. POSCRRA27.	X				

**Southern California Regional Rail Authority (SCRRA)**  
**MOU No. P0SCRRA27**  
**Compliance Matrix**  
**Year ended June 30, 2017**

Compliance Requirement	In Compliance			Questioned Costs	If no, provided details and management response
	Yes	No	N/A		
<p>6. SCRRA adheres to the following guidelines for invoicing and managing of rehabilitation and renovation projects for FY 2016-2017:</p> <p>a.) SCRRA submits an invoice to LACMTA on a quarterly basis for reimbursement of eligible expenses by submitting a quarterly progress/expenditure report. Each invoice and accompanying quarterly progress/expenditure report includes sufficient back up documentation to the project level so that expenses can be tracked on a project by project basis. Documentation includes copies of vendor invoices, material acquired, timesheets, and any other documentation to justify payment to SCRRA.</p> <p>b.) SCRRA invoices shall not exceed the FY 2016-2017 budgeted amount of \$28,381,025.</p> <p>c.) LACMTA staff conducts a rehabilitation/renovation review meeting each quarter.</p> <p>d.) SCRRA provides a list of rehabilitation/renovation projects for FY 2017-2018 to LACMTA by December 31, 2016.</p> <p>e.) Rehabilitation/renovation funds allocated for FY 2016-2017 are subject to lapse June 30, 2020. Any unexpended funds will be reprogrammed by the LACMTA Board.</p> <p>f.) Final Invoices for FY 2016-2017 must be submitted by December 31, 2020.</p>	X				

**Southern California Regional Rail Authority (SCRRA)**  
**MOU No. P0SCRRA27**  
**Compliance Matrix**  
**Year ended June 30, 2017**

	Compliance Requirement	In Compliance			Questioned Costs	If no, provided details and management response
		Yes	No	N/A		
7.	No FY 2016-/2017 LACMTA funds shall be used for previously funded projects except as provided in Article 6 of MOU No. POSCRRA27.			X		
8.	Modifications that do not materially affect the terms of this MOU, such as redistributing funds among existing budget line items or non-material schedule changes must be formally requested by the SCRRA by utilizing the Project Budget Reallocation Form (PBR) and approved in writing by the LACMTA before such modification can be implemented.	X				
9.	SCRRA may loan or exchange LACMTA funds to or between one or more other member agencies, provided certain conditions are met.			X		
10.	SCRRA shall make records available in such a manner that LACMTA auditors can complete the draft FY 2016-2017 audit by February 28, 2018.		X			See Finding # 2017-001
11.	SCRRA has submitted evidence of insurance to the satisfaction of LACMTA. SCRRA shall maintain, for the duration of this MOU, and/or shall require that SCRRA contractors maintain, levels of insurance coverage equivalent to existing coverage against claims for injuries to persons, or damages to property, which may arise from or in connection with SCRRA rail operations or construction by the SCRRA, its agents, representatives, employees or subcontractors on LACMTA property.	X				

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**



**Finding #2017-001: Accounting Discipline**

**Criteria**

Article 9 of MOU No. P0SCRRA27 states that, “SCRRA agrees to establish and maintain proper accounting procedures, appropriate internal controls, cash management records and documents in accordance with Generally Accepted Accounting Principles (GAAP), all applicable provisions of federal, state, and local laws, statutes, ordinances, rules, regulations, and procedural requirements including Federal Acquisition Regulations (FAR), and the applicable requirements and regulations of LACMTA ... SCRRA shall make records available in such a manner that LACMTA auditors can complete the draft FY 2016/2017 audit by February 28, 2018.”

**Condition**

- The unavailability of the analysis of unearned revenue account resulted in LACMTA auditor not being able to complete the examination by February 28, 2018.
- The schedule of unearned revenue account provided during our audit only shows the activities in the account during the fiscal years 2015, 2016 and 2017. There is no breakdown of the details and description of the unearned revenue account balance of \$16,875,000 as of June 30, 2017.

SCRRA hired a third party to perform a reconciliation of the unearned revenue account balance as shown in the CAFR and the general ledger. However, SCRRA is still in the process of performing a detailed analysis to provide details of the unearned revenue account balance per open MOUs.

**Cause**

There is lack of institutional history and monitoring mechanism for account balances. Because of staff turnover in prior years, current accounting staff does not have the information necessary to prepare the detailed schedule of unearned revenue. Staff will have to review prior year accounting records in order to obtain the information and prepare the schedule in compliance with the requirements of LACMTA.

**Effect**

The audit report was not completed on the due date as prescribed in the Guidelines. Certain audit procedures required on the balances of unearned revenue were not adequately performed.

**Finding #2017-001: Accounting Discipline (Continued)**

**Recommendation**

The requirements for the audit including timeline were clarified and discussed during the entrance meeting on January 3, 2018.

To provide timely completion of audit schedules, we strongly recommend that SCRRA establish more efficient and effective review and reconciliation policies and procedures as a customary part of the accounting and reporting process. The audit requirements for the LACMTA audit can be prepared in conjunction with the preparation for the requirements for the CAFR audit.

We also recommend that appropriate schedules of unearned revenue be maintained in accordance with LACMTA requirements. The schedule of unearned revenue should reflect the nature and source of the unearned revenue account balance (i.e. MOU numbers, type of subsidy or grant, grant year, purpose, restriction as to use, etc.).

Further, SCRRA should consider developing an accounting and reporting mechanism in its accounting system similar to the fund accounting system. This system will be used to account each revenue source and type of subsidy and monitor related expenditures chargeable to each funding type and source.

**Management's Response**

We agree with this finding. While all other required information for this audit was provided timely, the detailed schedule of unearned revenue proved to be more challenging to complete than anticipated. In consultation with the third party assisting us with the preparation of this schedule, we determined that a phased approach to providing this information was necessary. Phase I was provided in March 2018. Phase II is currently underway and will be provided in January 2019 for the FY18 MOU audit.

Regarding the recommendation to develop a fund accounting system to account for revenue sources and related expenditures, we currently utilize a comprehensive grant and project system that allows us to produce the information required by LACMTA. The challenges with the schedule of unearned revenue stem from prior application of that system and time periods before it was implemented.

**EXIT CONFERENCE**

An exit conference was held on April 11, 2018 with SCRRA's representatives. Those in attendance were:

Vasquez & Company LLP representatives:

Cristy Canieda – Partner  
Marialyn Salvador – Audit Senior Manager  
Emer Fabro – Audit Supervisor

LACMTA representatives:

Lauren Choi – Audit Senior Manager  
Yvette Reeves – Planning Manager  
Mark Po – Audit Senior Auditor

SCRRA representatives:

Ronnie Campbell – Chief Financial Officer  
Tom Schamber – Controller  
Michael Naoum III – Senior Manager, Finance  
Elisabeth Lazuardi – Senior Manager, Internal Audit  
Andrew Hong – Senior Auditor, Internal Audit  
David Rogers – Senior Auditor, Internal Audit

Matters discussed:

Results of our examination disclosed instances of noncompliance with the Guidelines.

A copy of this report was forwarded to the following SCRRA representatives for comments prior to the issuance of the final report.

Tom Schamber – Controller  
Elisabeth Lazuardi – Senior Manager, Internal Audit  
Andrew Hong – Senior Auditor, Internal Audit  
Michael Naoum III – Senior Manager, Finance



[www.vasquezcpa.com](http://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 publicly traded companies. Vasquez is a member of the RSM US Alliance. RSM US Alliance provides its members with access to resources of RSM US LLP. RSM US 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. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International. Visit [rsmus.com/about-us](http://rsmus.com/about-us) for more information regarding RSM US LLP and RSM International. The RSM™ logo is used under license by RSM US LLP. RSM US Alliance products and services are proprietary to RSM US LLP.

801 South Grand Avenue, Suite 400 • Los Angeles, California 90017-4646 • Ph. (213) 873-1700 • Fax (213) 873-1777