

***CITY OF TORRANCE
ANNUAL FINANCIAL REPORT OF THE
PROPOSITION A LOCAL RETURN FUND
PROPOSITION C LOCAL RETURN FUND
MEASURE R LOCAL RETURN FUND
MEASURE M LOCAL RETURN FUND
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 3 FUND
FOR THE FISCAL YEARS ENDED
JUNE 30, 2019 AND 2018***



Metro[®]



Simpson & Simpson, LLP
Certified Public Accountants

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FINANCIAL SECTION



SIMPSON & SIMPSON

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Independent Auditor's Report

To the Honorable Members of the City Council of the
City of Torrance, 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 (PALRF), Proposition C Local Return Fund (PCLRF), Measure R Local Return Fund (MRLRF), Measure M Local Return Fund (MMLRF), and Transportation Development Act Article 3 Fund (TDAA3F) (collectively, the Funds), of the City of Torrance, California (the City) as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, as listed in the table of contents.

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.

Auditor's 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the PALRF, PCLRF, MRLRF, MMLRF and TDAA3F of the City of Torrance, California, as of June 30, 2019 and 2018, and the respective changes in their 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 PALRF, PCLRF, MRLRF, MMLRF and TDAA3F of the City and do not purport to, and do not, present fairly the financial position of the City of Torrance, California, as of June 30, 2019 and 2018, and the changes in its financial position for the years then ended in conformity 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. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the Funds' financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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' financial statements or to the Funds' 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' financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated December 12, 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 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 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 cursive script that reads "Simpson & Simpson".

Los Angeles, California
December 12, 2019

CITY OF TORRANCE
PROPOSITION A LOCAL RETURN FUND
BALANCE SHEETS
June 30

	2019	2018
ASSETS		
Cash and investments	\$ 1,935,477	\$ 1,623,310
Interest receivable	5,428	3,543
Total assets	\$ 1,940,905	\$ 1,626,853
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ -	\$ -
Total liabilities	-	-
 Fund Balance		
Restricted	1,940,905	1,626,853
Total fund balance	1,940,905	1,626,853
Total liabilities and fund balance	\$ 1,940,905	\$ 1,626,853

The accompanying notes are an integral part to the financial statements.

CITY OF TORRANCE
PROPOSITION A LOCAL RETURN FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
For the Fiscal Years Ended June 30

	2019	2018
REVENUES		
Proposition A	\$ 2,953,214	\$ 2,745,295
Interest income	35,161	25,447
Total revenues	2,988,375	2,770,742
 EXPENDITURES		
Various projects	2,674,323	2,674,323
Total expenditures	2,674,323	2,674,323
 Excess of revenues over expenditures	314,052	96,419
 Fund balance at beginning of year	1,626,853	1,530,434
 Fund balance at end of year	\$ 1,940,905	\$ 1,626,853

The accompanying notes are an integral part to the financial statements.

CITY OF TORRANCE
PROPOSITION A LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES
ACTUAL AND METRO APPROVED PROJECT BUDGET
For the Fiscal Year Ended June 30, 2019
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2018)

Project Code	Project Name	2019			2018 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
110-01	Fixed Route Operating Assistance	\$ 1,475,458	\$ 1,544,640	\$ (69,182)	\$ 1,552,314
130-01	Dial-A-Lift Operating Assistance	180,000	180,000	-	180,000
240-01	Senior Ride Program	650,000	563,523	86,477	553,931
480-01	Admin Charges Associated with Fixed Route	368,865	386,160	(17,295)	388,078
	Total expenditures	\$ 2,674,323	\$ 2,674,323	\$ -	\$ 2,674,323

See accompanying independent auditor's report.

CITY OF TORRANCE
PROPOSITION A LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
June 30, 2019

Date Acquired	Description	Balance 7/1/2018	Additions	Deletions	Balance 6/30/2019
Various	Transit Building Facility	\$ 1,458,361	\$ -	\$ -	\$ 1,458,361
9/11	New Flyer Buses	595,562	-	-	595,562
6/13	Other Equipment	52,354	-	-	52,354
6/14	Bus Wash and Vacuum System	182,823	-	-	182,823
	Total \$	<u>2,289,100</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,289,100</u>

See accompanying independent auditor's report.

CITY OF TORRANCE
PROPOSITION C LOCAL RETURN FUND
BALANCE SHEETS
June 30

	2019	2018
ASSETS		
Cash and investments	\$ 7,814,362	\$ 6,432,404
Interest receivable	21,913	14,038
Total assets	\$ 7,836,275	\$ 6,446,442
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 562,831	\$ 26,066
Accrued payroll	7,059	1,601
Total liabilities	569,890	27,667
 Fund Balance		
Restricted	7,266,385	6,418,775
Total fund balance	7,266,385	6,418,775
Total liabilities and fund balance	\$ 7,836,275	\$ 6,446,442

The accompanying notes are an integral part to the financial statements.

CITY OF TORRANCE
PROPOSITION C LOCAL RETURN FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
For the Fiscal Years Ended June 30

	2019	2018
REVENUES		
Proposition C	\$ 2,449,608	\$ 2,279,041
Interest income	140,111	93,051
Total revenues	2,589,719	2,372,092
 EXPENDITURES		
Various projects	1,742,109	1,214,421
Total expenditures	1,742,109	1,214,421
 Excess of revenues over expenditures	847,610	1,157,671
 Fund balance at beginning of year	6,418,775	5,261,104
 Fund balance at end of year	\$ 7,266,385	\$ 6,418,775

The accompanying notes are an integral part to the financial statements.

CITY OF TORRANCE
PROPOSITION C LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES
ACTUAL AND METRO APPROVED PROJECT BUDGET
For the Fiscal Year Ended June 30, 2019
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2018)

Project Code	Project Name	2019			2018 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
110-01	Fixed Route Operating Assistance	\$ 1,114,000	\$ -	\$ 1,114,000	\$ -
210-01	Citywide Traffic Analysis T 171	357,550	129,058	228,492	17,450
260-05	Rideshare Incentive Program	196,739	93,449	103,290	115,102
270-01	Citywide Traffic Analysis T 167	184,290	165,309	18,981	345,691
440-01	Crenshaw Blvd Pavement Rehab. - Phases 1, 2, I-121	-	-	-	28
440-02	Pacific Coast Highway Improvements, I-333	-	-	-	2,159
440-16	Hawthorne Blvd. Rehabilitation T-45	40,667	8,782	31,885	2,072
440-20	Torrance Arterial Street Maintenance	180,000	180,000	-	170,000
440-21	Crenshaw Blvd. Rehabilitation I-120	291	291	-	93,800
440-22	Arterial Street Pavement Sealing Program, I-139	1,240,966	1,126,499	114,467	468,119
440-23	Sepulveda Blvd Rehabilitation I 172	290,000	38,721	251,279	-
	Total expenditures	\$ <u>3,604,503</u>	\$ <u>1,742,109</u>	\$ <u>1,862,394</u>	\$ <u>1,214,421</u>

See accompanying independent auditor's report.

CITY OF TORRANCE
PROPOSITION C LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
June 30, 2019

Date Acquired	Description	Balance 7/1/2018	Additions	Deletions	Balance 6/30/2019
6/03	5 Ford Taurus Sedans	\$ 44,690	\$ -	\$ -	\$ 44,690
	Total	\$ 44,690	\$ -	\$ -	\$ 44,690

See accompanying independent auditor's report.

CITY OF TORRANCE
MEASURE R LOCAL RETURN FUND
BALANCE SHEETS
June 30

	2019	2018
ASSETS		
Cash and investments	\$ 5,121,255	\$ 5,083,215
Interest receivable	14,361	11,093
Total assets	\$ 5,135,616	\$ 5,094,308
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 939,848	\$ 93,608
Accrued payroll	1,785	2,335
Total liabilities	941,633	95,943
 Fund Balance		
Restricted	4,193,983	4,998,365
Total fund balance	4,193,983	4,998,365
Total liabilities and fund balance	\$ 5,135,616	\$ 5,094,308

The accompanying notes are an integral part to the financial statements.

CITY OF TORRANCE
MEASURE R LOCAL RETURN FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
For the Fiscal Years Ended June 30

	2019	2018
REVENUES		
Measure R	\$ 1,837,735	\$ 1,705,560
Interest income	103,229	78,289
Total revenues	1,940,964	1,783,849
 EXPENDITURES		
Various projects	2,745,346	1,826,554
Total expenditures	2,745,346	1,826,554
 Deficiency of revenues under expenditures	(804,382)	(42,705)
 Fund balance at beginning of year	4,998,365	5,041,070
 Fund balance at end of year	\$ 4,193,983	\$ 4,998,365

The accompanying notes are an integral part to the financial statements.

CITY OF TORRANCE
MEASURE R LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES
ACTUAL AND METRO APPROVED PROJECT BUDGET
For the Fiscal Year Ended June 30, 2019
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2018)

Project Code	Project Name	2019			2018 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
1.05	I-120, Crenshaw Boulevard Rehabilitation	\$ 97,386	\$ 97,386	\$ -	\$ 73,410
1.05	I-147, Crenshaw Blvd Rehab (182nd st to North City Limit)	1,113,000	-	1,113,000	-
1.05	I-139, Arterial Street Pavement Sealing Program	1,249,433	564,864	684,569	969,957
1.05	I-159, Residential Slurry Seal Program	1,957,500	591,901	1,365,599	4,034
1.05	I-169, Residential St. Rehabilitation Program	1,450,000	246,439	1,203,561	-
2.02	T-128, Traffic Signal Left Turn Phasing Upgrades at Various Locations	308,793	201,178	107,615	9,701
2.03	T-167 Citywide Traffic Analysis	161,603	161,524	79	57,397
2.03	T-171 Citywide Traffic Signal Improvement	171,834	51,105	120,729	15,666
2.04	T-146 Intelligence Transportation System (ITS) and Signal Improvement	47,105	25,749	21,356	34,129
3.20	I-140, 186th Street Improvements at Columbia Park	18,664	123,585	(104,921)	662,260
3.05	T-115, Downtown Torrance Pedestrian Improvement Project	-	681,615	(681,615) *	-
Total expenditures		\$ <u>6,575,318</u>	\$ <u>2,745,346</u>	\$ <u>3,829,972</u>	\$ <u>1,826,554</u>

* The City received an approval from Metro on December 13, 2019 to amend the budget for Project Code 3.05, T-115, Downtown Torrance Pedestrian Improvement Project to \$900,000.

See accompanying independent auditor's report.

CITY OF TORRANCE
MEASURE R LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
 June 30, 2019

<u>Date</u> <u>Acquired</u>	<u>Description</u>	<u>Balance</u> <u>7/1/2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/2019</u>
None		\$ -	\$ -	\$ -	\$ -
	Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditor's report.

CITY OF TORRANCE
MEASURE M LOCAL RETURN FUND
BALANCE SHEETS
June 30

	2019	2018
ASSETS		
Cash and investments	\$ 3,627,636	\$ 1,555,153
Interest receivable	10,173	3,394
Total assets	\$ 3,637,809	\$ 1,558,547
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ -	\$ -
Total liabilities	-	-
 Fund Balance		
Restricted	3,637,809	1,558,547
Total fund balance	3,637,809	1,558,547
Total liabilities and fund balance	\$ 3,637,809	\$ 1,558,547

The accompanying notes are an integral part to the financial statements.

CITY OF TORRANCE
MEASURE M LOCAL RETURN FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
For the Fiscal Years Ended June 30

	<u>2019</u>	<u>2018</u>
REVENUES		
Measure M	\$ 2,069,697	\$ 1,545,628
Interest income	<u>52,616</u>	<u>12,919</u>
Total revenues	<u>2,122,313</u>	<u>1,558,547</u>
 EXPENDITURES		
T 177, Plaza del Amo at Western Ave	<u>43,051</u>	<u>-</u>
Total expenditures	<u>43,051</u>	<u>-</u>
 Excess of revenues over expenditures	 2,079,262	 1,558,547
 Fund balance at beginning of year	 <u>1,558,547</u>	 <u>-</u>
 Fund balance at end of year	 <u>\$ 3,637,809</u>	 <u>\$ 1,558,547</u>

The accompanying notes are an integral part to the financial statements.

CITY OF TORRANCE
MEASURE M LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES
ACTUAL AND METRO APPROVED PROJECT BUDGET
For the Fiscal Year Ended June 30, 2019
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2018)

Project Code	Project Name	2019			2018 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
1.10	T 177, Plaza del Amo at Western Ave	\$ -	\$ 43,051	\$ (43,051)	*\$ -
	Total expenditures	\$ -	\$ 43,051	\$ (43,051)	\$ -

* The City received an approval from Metro on December 13, 2019 to amend the budget for T117, Plaza del Amo at Western Ave to \$196,000.

See accompanying independent auditor's report.

CITY OF TORRANCE
MEASURE M LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
 June 30, 2019

<u>Date</u> <u>Acquired</u>	<u>Description</u>	<u>Balance</u> <u>7/1/2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/2019</u>
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

CITY OF TORRANCE
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND
(PURSUANT TO PUBLIC UTILITIES CODE SECTION 99234)
BALANCE SHEETS
June 30

	2019	2018
ASSETS		
Cash and investment	\$ -	\$ 956
Total assets	\$ -	\$ 956
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ -	\$ -
Total liabilities	-	-
 Fund Balance		
Restricted	-	956
Total fund balance	-	956
Total liabilities and fund balance	\$ -	\$ 956

The accompanying notes are an integral part to the financial statements.

CITY OF TORRANCE
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
For the Fiscal Years Ended June 30

	2019	2018
REVENUES		
Interest income	\$ -	\$ 956
TDA 3	-	98,333
Total revenues	-	99,289
 EXPENDITURES		
Sidewalk Repair for Handicap Accessibility	956	98,333
Total expenditures	956	98,333
 (Deficiency) excess of revenues (under) over expenditures	 (956)	 956
Fund balance at beginning of year	956	-
Fund balance at end of year	\$ -	\$ 956

The accompanying notes are an integral part to the financial statements.

CITY OF TORRANCE
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF TRANSPORTATION DEVELOPMENT ACT
ALLOCATION FOR SPECIFIC PROJECTS
For the Fiscal Year Ended June 30, 2019

<u>Project Description</u>	<u>Program Year</u>	<u>Allocations</u>	<u>Expenditures</u>	<u>Unexpended Allocations</u>	<u>Project Status</u>
Local allocations					
Sidewalk Repair for Handicap Accessibility	2019	\$ -	\$ 956	\$ (956)	Complete
Total		<u>\$ -</u>	<u>\$ 956</u>		
Fund balance at beginning of year				<u>956</u>	
Fund balance at end of year				<u>\$ -</u>	

See accompanying independent auditor's report.

CITY OF TORRANCE
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2019 and 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The operations of the Proposition A Local Return Fund (PALRF), Proposition C Local Return Fund (PCLRF), Measure R Local Return Fund (MRLRF), Measure M Local Return Fund (MMLRF) and Transportation Development Act Article 3 Fund (TDAA3F) (collectively, the Funds) are accounted for in separate sets of self-balancing accounts that comprise their assets, liabilities, fund balance, revenues and expenditures.

PALRF and PCLRF represent 25% and 20%, respectively, of the ½ cent Proposition A and ½ cent Proposition C sales taxes which are distributed to the jurisdictions within Los Angeles County based on population and must be used exclusively for transportation related programs and projects.

MRLRF is derived from 15% of a county-wide ½ cent sales tax which is distributed to the jurisdictions within Los Angeles County based on a per capita basis and must be used exclusively for transportation purposes.

MMLRF is derived from 17% of a county-wide ½ cent sales tax which is distributed to the jurisdictions within Los Angeles County based on a per capita basis and must be used exclusively for transportation purposes.

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

PALRF, PCLRF, MRLRF, MMLRF and TDAA3F are accounted for using the modified accrual basis of accounting whereby revenues are recognized when they become both measurable and available to finance expenditures of the current period and expenditures are generally recognized when the related fund liabilities are incurred.

Special Revenue Funds are reported on 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. Statement of revenue, expenditures and changes in fund balance for Special Revenue Funds generally presents increases (revenue 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 presented in accordance with accounting principles generally accepted in the United States of America.

CITY OF TORRANCE
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2019 and 2018
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurement

In accordance with Government Accounting Standard Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, which became effective for the fiscal year ended June 30, 2016, 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 investment at fair value and recognizes unrealized gain (loss) on investments.

Refer to City's 2019 Comprehensive Annual Financial Report for detailed disclosures regarding the City's investments policy and fair value measurement.

Fund Balance Reporting

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 resources reported in governmental funds.

The PALRF, PCLRF, MRLRF, MMLRF and TDAA3F report the following fund balance classifications as of June 30, 2019:

- Restricted – Amounts that are constrained for specific purpose, which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation. The uses of the funds' remaining fund balances are restricted for projects approved by Los Angeles County Metropolitan Transportation Authority (Metro).

Information regarding the fund balance reporting policy adopted by the City is described in Note 1 to 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, MMLRF and TDAA3F and their compliance with the Proposition A and Proposition C Local Return Program Guidelines, Measure R Local Return Program Guidelines, Measure M Local Return Program Guidelines and Transportation Development Act Article 3 and the Los Angeles County Metropolitan Transportation Authority Funding and Allocation Guidelines for Transportation Development Act Article 3 Bicycle and Pedestrian Funds.

CITY OF TORRANCE
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2019 and 2018
(Continued)

NOTE 3 – PROPOSITION A AND PROPOSITION C LOCAL RETURN COMPLIANCE REQUIREMENTS

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

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

On June 23, 2016, the Metro Board of Directors approved the Los Angeles County Traffic Improvement Plan Ordinance, known as Measure M. 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 – 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 7 – CASH AND INVESTMENTS

The PALRF, PCLRF, MRLRF, MMLRF and TDAA3F's cash and investment balances were pooled with various other City funds for deposit and investment purposes. The share of each fund in the pooled cash and investments 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.

CITY OF TORRANCE
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2019 and 2018
(Continued)

NOTE 8 – TRANSPORTATION DEVELOPMENT ACT FUND REVENUE ALLOCATION

The revenue allocation for the years ended June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
FY 2016-17 allocation	\$ -	\$ 98,333
Total payment requested	\$ -	\$ 98,333

NOTE 9 – TRANSPORTATION DEVELOPMENT ACT FUNDS RESERVED

In accordance with TDA Article 3 (SB821) Guidelines, funds not 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 Metro. As of June 30, 2019, and 2018, the City has funds on reserve as follows:

	<u>2019</u>	<u>2018</u>
FY 2017-18 allocation	\$ 95,834	\$ 95,834
FY 2018-19 allocation	99,706	-
Available reserve balance	\$ 195,540	\$ 95,834

NOTE 10 – SUBSEQUENT EVENTS

The City has evaluated events or transactions that occurred subsequent to June 30, 2019 through December 12, 2019, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined no subsequent matters require disclosure or adjustment to the accompanying financial statements.



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS
FOUNDING PARTNERS
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**Independent Auditor’s Report 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 Torrance, California and the
Los Angeles County Metropolitan Transit Authority

We have audited, 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, the financial statements of the Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, Measure M Local Return Fund, and Transportation Development Act Article 3 Fund (collectively, the Funds) of the City of Torrance, 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 12, 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 financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Funds’ financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our 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, Measure M Local Return Fund and Transportation Development Act Article 3 Fund financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, reading "Simpson & Simpson".

Los Angeles, California
December 12, 2019

COMPLIANCE SECTION



SIMPSON & SIMPSON

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FOUNDING PARTNERS
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Independent Auditor's Report On Compliance

To the Honorable Members of the City Council of the
City of Torrance, California and the
Los Angeles County Metropolitan Transit Authority

Report on Compliance

We have audited the compliance of the City of Torrance, California (the City) with the Proposition A and Proposition C Local Return Guidelines, Measure R Local Return Guidelines, Measure M Local Return Guidelines, Transportation Development Act Article 3, and the Los Angeles County Metropolitan Transportation Authority's Funding and Allocation Guidelines for the Transportation Development Act Article 3 Bicycle and Pedestrian Funds (collectively, the Guidelines) for the year ended June 30, 2019.

Management's Responsibility

Management is responsible for the City's compliance with the Guidelines.

Auditor's Responsibility

Our responsibility is to express an opinion on the City's compliance based on our audit. We conducted our audit of compliance in accordance with 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 referred to in the preceding paragraph. Those standards and the Guidelines require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on Proposition A Local Return Program, Proposition C Local Return Program, Measure R Local Return Program, Measure M Local Return Program, and Transportation Development Act Article 3 Program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the Guidelines. However, our audit does not provide a legal determination of the City's compliance with the Guidelines.

Opinion on Each Local Return Program and Transportation Development Act Article 3

In our opinion, the City 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, which are required to be reported in accordance with the Guidelines and which are described in the accompanying Schedule of Findings and Recommendations as Finding Nos. 2019-001 to 2019-002. Our opinion on each local return and Transportation Development Act Article 3 program is not modified with respect to this matter.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Recommendations. 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 Guidelines 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 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 we consider to be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 cursive script that reads "Simpson & Simpson". The signature is written in dark ink and is positioned above the typed name and date.

Los Angeles, California
December 12, 2019

CITY OF TORRANCE
COMPLIANCE MATRIX
Year Ended June 30, 2019

Compliance Requirement		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			None	
2.	Timely use of funds.	X			None	
3.	Funds expended were approved and have not been substituted for property tax.	X			None	
4.	Expenditures that exceeded 25% of approved project budget have approved amended Project Description Form (Form A).	X			None	
5.	Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	X			None	
6.	All on-going and carryover projects were reported in Form B.	X			None	
7.	Annual Project Summary Report (Form B) was submitted on time.	X			None	
8.	Annual Expenditure Report (Form C) was submitted on time.	X			None	
9.	Cash or cash equivalents are maintained.	X			None	
10.	Accounting procedures, record keeping, and documentation are adequate.	X			None	
11.	Pavement Management System (PMS) is in place and being used for Street Maintenance or Improvement Projects Expenditures.	X			None	
12.	Local Return Account is credited for reimbursable expenditures.	X			None	
13.	Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.			X	None	There were no Intelligent Transportation Systems projects or elements in FY 2018/19.
14.	Assurances and Understandings form was on file.	X			None	
15.	Recreational transit form was submitted on time.			X	None	There was no recreational transit in FY 2018/19.

CITY OF TORRANCE
COMPLIANCE MATRIX
Year Ended June 30, 2019
(Continued)

Compliance Requirement		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			None	
2.	Fund were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	X			None	
3.	Signed Assurances and Understandings was on file.	X			None	
4.	Separate Measure R Local Return Account was established.	X			None	
5.	Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	X			None	
6.	Funds were expended with Metro's approval.		X		None	See Finding No. 2019-001 on the Schedule of Findings and Recommendations.
7.	Expenditure Plan (Form One) was submitted on time.	X			None	
8.	Expenditure Report (Form Two) was submitted on time.	X			None	
9.	Timely use of funds.	X			None	
10.	Administrative expenditures are within the 20% cap.			X	None	There were no administrative expenses in FY 2018/19.
11.	Fund exchanges were approved by Metro.			X	None	There were no fund exchanges in FY 2018/19.
12.	A separate account was established for capital reserve funds and capital reserve was approved by Metro.			X	None	There were no capital reserve funds in FY 2018/19.
13.	Recreational transit form was submitted on time.			X	None	There was no recreational transit in FY 2018/19.

CITY OF TORRANCE
COMPLIANCE MATRIX
Year Ended June 30, 2019
(Continued)

Compliance Requirement		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			None	
2.	Funds were used to augment, not supplant existing local revenues being used for transportation purposes unless there is a funding shortfall.	X			None	
3.	Signed Assurances and Understandings was on file.	X			None	
4.	Separate Measure M Local Return Account was established.	X			None	
5.	Revenue received including allocations, project generated revenues and interest income was properly credited to the Measure M Local Return Account.	X			None	
6.	Funds were expended with Metro's approval.		X		None	See Finding No. 2019-002 on the Schedule of Findings and Recommendations.
7.	Expenditure Plan (Form One) was submitted on time.		X		None	See Finding No. 2019-002 on the Schedule of Findings and Recommendations.
8.	Expenditure Report (Form Two) was submitted on time.	X			None	
9.	Timely use of funds.	X			None	
10.	Administrative expenses are within the 20% cap.			X	None	There were no administrative expenses in FY 2018/19.
11.	Fund exchanges were approved by Metro.			X	None	There were no fund exchanges in FY 2018/19.
12.	A separate account was established for capital reserve funds and capital reserve was approved by Metro.			X	None	There were no capital reserve funds in FY 2018/19.
13.	Recreational transit form was submitted timely.			X	None	There was no recreational transit in FY 2018/19.

CITY OF TORRANCE
COMPLIANCE MATRIX
Year Ended June 30, 2019
(Continued)

Compliance Requirement		In Compliance			Questioned Costs	If no, provide details and management response.
		Yes	No	N/A		
D. Transportation Development Act Article 3 Fund						
1.	Timely use of funds.	X			None	
2.	Expenditures were incurred for activities relating to pedestrian and bicycle facilities and amenities.	X			None	

CITY OF TORRANCE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
 June 30, 2019

MRLRF: Finding No. 2019-001

Compliance Requirement	<p>According to Measure R Local Return Guidelines,</p> <p>Section B, II. 1, Expenditure Plan (Form One), states “Form One provides a listing of projects funded with Measure R LR funds along with estimated expenditures for the year.”</p> <p>Section B.VII.A, Financial and Compliance Provisions, “The Measure R LR Audits shall include, but not limited to, verification of adherence to the following financial and compliance provisions of these guidelines: Verification that funds were expended with Metro’s approval.”</p>
Condition	<p>During FY 2018-19, the City used Measure R Local Return funds for an eligible Project Code 3.05 - T-115 Downtown Torrance Pedestrian Improvement Project (Project) in the amount of \$681,615; however, the funds for the Project were expended prior to LACMTA’s approval as the Project was not reported on the Form One.</p> <p>On December 13, 2019, the City submitted the revised Form One to obtain LACMTA’s retroactive approval and received subsequent approval on December 13, 2019.</p>
Cause	<p>The City represented that the Project was not reported on the Form One because the Project was not budgeted by the City prior to August 1, 2018. Subsequently, the City budgeted for the Project and incurred expenditures which were reported on the Form Two.</p>
Effect	<p>The City did not comply with the Measure R Local Return Guidelines.</p>
Recommendation	<p>We recommend that the City strengthen its internal control procedures by obtaining prior approval from LACMTA for all projects that are funded by Measure R LR Funds before incurring expenditures.</p> <p>We also recommend that the City work closely with the City Council to obtain timely approval for all Measure R LR projects prior to the expenditures of funds, and the Form One is properly prepared and submitted to LACMTA before the due date of August 1.</p>
Management’s Response	<p>The Downtown Torrance Pedestrian Improvement, T-115 (“T-115 Project”) is an eligible Measure R-LR project conforming to the requirements in MR-LR Guidelines Section A Policy, Subsection II Measure R Uses and Conditions for Project Eligibility beginning on page 2.</p> <p>On August 14, 2018, the Torrance City Council approved \$900,000 of FY2018-19 Measure R-LR funds for the T-115 Project. This approval occurred AFTER the August 1 annual deadline for submitting the Form R-One. Therefore, the City was correct and accurate not to include (budget) the T-115 Project on the Form R-One submitted by August 1, 2018, as the budget for use of these Measure R-LR funds was not yet approved by the City.</p>

(Continued)

CITY OF TORRANCE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
 June 30, 2019
 (Continued)

MRLRF: Finding No. 2019-001 (Continued)

<p>Management’s Response (Continued)</p>	<p>MR-LR Guidelines Section B Administrative, Subsection II Reporting Requirements, Paragraphs 1 through 4 on pages 8 and 9 indicate repeatedly that the submittal of the Form R-One is only required ANNUALLY and by August 1 and Form R-Two is required ANNUALLY and by October 15. There is no requirement in the MR-LR Guidelines for a Jurisdiction to submit a “revised” Form R-One, nor a Form R-One, more frequently than annually.</p> <p>The MR-LR Guidelines are, in fact, explicitly clear in Measure R Local Return Guidelines Section B Administrative, Subsection II Reporting Requirements, Paragraph 4 that a Form R-One for a “New, amended, ongoing and carryover projects; Capital projects require additional information” is due ANNUALLY and on August 1.</p> <p>Additionally, MR-LR Guidelines Section B Administrative, Subsection II Reporting Requirements beginning on page 8 do not prohibit a Jurisdiction from obtaining approval by Metro AFTER incurring eligible expenditures. Furthermore, MR-LR Guidelines Section B Administrative, Subsection VII Audit Section, Paragraph A Financial and Compliance Provisions beginning on page 11 supports Metro’s authority to approve eligible expenditures before or after they are incurred. The Auditor’s role is to verify if Metro approves of the expenditure of funds. The City reported the T-177 Project expenditures on the FY2018-19 Expenditure Report submitted to Metro on October 15, 2019, as required by the MR-LR Guidelines. On October 17, 2019, Metro acknowledged by email the City’s submittal of the FY2018-19 Expenditure Report and did not indicate any concerns or non-approval.</p> <p>In our opinion, the City fully complied with the requirements in the MR-LR Guidelines to maintain legal eligibility of the use of Measure R-LR funds, including accurate and timely reporting. The City spent the funds on an eligible T-115 Project. Metro approved of the eligible expenditures. Therefore, the City objects to this finding.</p>
<p>Finding Corrected During the Audit</p>	<p>On December 13, 2019, the City received retroactive approval from LACMTA, Program Manager, to expend Measure R-LR funds for Project Code 3.05 - T-115 Downtown Torrance Pedestrian Improvement Project. No follow-up is required.</p>

CITY OF TORRANCE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
 June 30, 2019
 (Continued)

MRLRF: Finding No. 2019-001 (Continued)

<p>Auditor's Rejoinder</p>	<p>The City's management responded to Finding #2019-001 by stating that the "T-115 Project" was an eligible project which conformed to the requirements set forth in the Measure R Local Return Guidelines, and that there are no requirements to submit a "revised" Form One.</p> <p>However, Measure R Local Return Guidelines, B, II, 1, states "Form One provides a listing of projects funded with Measure R LR funds along with estimated expenditures for the year." The City was not in compliance with the requirement to submit a Form One which provides a listing of projects funded with Measure R LR funds with estimated expenditures for the fiscal year 2019, which is also the means by which the City obtains Metro's approval of Measure R LR funded projects. Additionally, it is the jurisdiction's responsibility to obtain its City Council's approval of a project's budget promptly and to properly prepare its Form One with a complete list of projects funded with Measure R LR funds to Metro. The City's management also stated in their responses that the Measures R Local Return Guidelines require jurisdictions to submit a Form One annually. However, the Guidelines do not prohibit a City from submitting an amended Form One or a separate request to Metro to obtain project approval prior to expending the funds during the fiscal year. The intent of the Guidelines, B, II, 4, Form One DETERMINATION is for jurisdictions to obtain Metro's approval of new, amended, ongoing, and carryover projects annually and prior to expending the funds.</p> <p>Additionally, the City's management stated in their response that the Measure R Local Return Guidelines "do not prohibit a Jurisdiction from obtaining approval by Metro AFTER incurring eligible expenditures." We disagree with the City's statement on the basis that Section B, VII, A of the Measure R Local Return Guidelines clearly state that expenditures require "Verification that funds were expended <u>with</u> Metro's approval" (Auditors have added the underscore for emphasis). In our opinion, the preposition "with" can only be interpreted as occurring temporally before or concomitantly with Metro's approval, and that funds should not be expended <u>without</u> said approval. Because the City expended funds without Metro's approval, we stand by our compliance finding and recommendation.</p>
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CITY OF TORRANCE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
 June 30, 2019
 (Continued)

MMLRF: Finding No. 2019-002

Compliance Requirement	<p>According to Measure M Local Return Guidelines,</p> <p>Section XXV, Reporting Requirements, “Form M-One provides a listing of projects funded with Measure M LR funds along with estimated expenditures for the year.”</p> <p>Section XXV, Financial and Compliance Provisions, “The Measure M LR Audits shall include, but not limited to, verification of adherence to the following financial and compliance provisions of these guidelines: Verification that funds were expended with Metro’s approval.”</p>
Condition	<p>During FY 2018-19, the City used Measure M Local Return funds for an eligible Project Code 1.10, T 177, Plaza del Amo at Western Ave. (Project) in the amount of \$43,051; however, the funds for the Project were expended without Metro’s prior approval as an Expenditure Plan (Form M-One) was not submitted to LACMTA.</p> <p>On December 13, 2019, the City submitted the Form M-One to obtain LACMTA’s retroactive approval and received subsequent approval on December 13, 2019.</p>
Cause	<p>The City represented that a Form M-One was not submitted because the Project was not budgeted by the City prior to August 1, 2018. Subsequently, the City budgeted for the Project and incurred expenditures which were reported on the Form M-Two.</p>
Effect	<p>The City did not comply with the Measure M Local Return Guidelines.</p>
Recommendation	<p>We recommend that the City strengthen its internal control procedures by obtaining prior approval from LACMTA for all projects that are funded by Measure M Local Return Funds before incurring expenditures.</p> <p>We also recommend that the City work closely with the City Council to obtain timely approval for all Measure M LR projects prior to the expenditures of funds, and the Form M-One is properly prepared and submitted to LACMTA before the due date of August 1.</p>
Management’s Response	<p>The Plaza del Amo at Western Ave, T-177 (“T-177 Project”) is an eligible Measure M project conforming to the requirements in MM-Guidelines Section XXV Local Return, Subsection Eligible Uses beginning on page 75. On September 18, 2018, the Torrance City Council approved \$100,000 of FY2018-19 Measure M-LR funds for the T-177 Project. This approval occurred AFTER the August 1 annual deadline for submitting the Form M-One. Therefore, the City was correct and accurate not to include (budget) the T-177 Project on the Form M-One submitted by August 1, 2018, as the budget for use of these Measure M-LR funds was not yet approved by the City.</p>

(Continued)

CITY OF TORRANCE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
 June 30, 2019
 (Continued)

MMLRF: Finding No. 2019-002 (Continued)

<p>Management’s Response (Continued)</p>	<p>MM-Guidelines Section XXV Local Return, Subsection Administrative-Reporting Requirements on pages 85 through 87 indicate repeatedly that the submittal of the Form M-One is only required ANNUALLY and by August 1. There is no requirement in the MM Guidelines for a Jurisdiction to submit a “revised” Form M- One, nor a Form M-One, more frequently than annually. The MM-LR Guidelines are, in fact, explicitly clear in this same Subsection on page 86 that a Form M-One for “New, amended, ongoing and carryover projects; Capital projects require additional information” is due ANNUALLY and on August 1.</p> <p>Additionally, MM-Guidelines Section XXV Local Return, Subsection Administrative-Reporting Requirements on pages 85 through 87 do not prohibit a Jurisdiction from obtaining approval from Metro AFTER incurring eligible expenditures. Furthermore, MM-Guidelines Section XXV Local Return, Subsection Administrative-Audit Requirements; Financial and Compliance Provisions on pages 91 and 92 do not prohibit Metro from approving eligible expenditures AFTER they are incurred. The Auditor’s role is to verify if funds were expended with Metro’s approval. The City reported the T-177 Project’s eligible expenditures on the FY2018-19 Expenditure Report submitted to Metro on October 15, 2019, as required by the MM Guidelines. On October 17, 2019, Metro acknowledged by email the City’s submittal of the FY2018-19 Expenditure Report and did not indicate any concerns or non-approval.</p> <p>In our opinion, the City fully complied with the requirements in the MM Guidelines to maintain legal eligibility of the use of Measure M-LR funds, including accurate and timely reporting. The City spent the funds on an eligible T-177 Project. Metro approved of the eligible expenditures. Therefore, the City objects to this finding.</p>
<p>Finding Corrected During the Audit</p>	<p>On December 13, 2019, the City received retroactive approval from LACMTA Program Manager to expend Measure M funds for Project Code 1.10, T 177, Plaza del Amo at Western Ave. No follow-up is required.</p>

CITY OF TORRANCE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
 June 30, 2019
 (Continued)

MMLRF: Finding No. 2019-002 (Continued)

<p>Auditor’s Rejoinder</p>	<p>City’s management responded to Finding No. 2019-002 by stating that the Measure M Local Return Guidelines do not require the submission of a “revised” Form One.</p> <p>However, Measure M Local Return Guidelines, Section XXV, Reporting Requirements, states “Form M-One provides a listing of projects funded with Measure M LR funds along with estimated expenditures for the year.” The City was not in compliance with the requirement to submit a Form M-One which provides a listing of projects funded with Measure M LR funds with estimated expenditures for the fiscal year 2019, which is also the means by which the City obtains Metro’s approval of Measure M LR funded projects. Additionally, it is the jurisdiction’s responsibility to obtain its City Council’s approval of a project’s budget promptly and to properly prepare its Form M-One with a complete list of projects funded with Measure M LR funds to Metro. The City’s management also stated in their response that the Measure M Local Return Guidelines require jurisdictions to submit a Form M-One annually. However, the Guidelines do not prohibit a City from submitting an amended Form M-One or a separate request to Metro to obtain project approval prior to expending the funds during the fiscal year. The intent of the Guidelines, XXV Local Return, Form M-One DETERMINATION is for jurisdictions to obtain Metro’s approval of new, amended, ongoing, and carryover projects annually and prior to expending the funds.</p> <p>Additionally, the City’s management also stated in their response that the Measure M Local Return Guidelines “<i>do not prohibit Metro from approving eligible expenditures AFTER they are incurred.</i>” We disagree with the City’s statement on the basis that Section XXV, Financial and Compliance Provisions, of the Measure M Local Return Guidelines clearly state that expenditures require “Verification that funds were expended <u>with</u> Metro’s approval” (Auditors have added the underscore for emphasis). In our opinion, the preposition “with” can only be interpreted as occurring “temporally before” or “concomitantly with” Metro’s approval, and that funds should not be expended <u>without</u> said approval. Because the City expended funds without Metro’s approval, we stand by our compliance finding and recommendation.</p>
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EXIT CONFERENCE

CITY OF TORRANCE
PROPOSITION A, PROPOSITION C, MEASURE R, MEASURE M LOCAL RETURN FUNDS AND
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND
EXIT CONFERENCE
June 30, 2019

An exit conference was held on December 12, 2019 with the City of Torrance. Those in attendance were:

Simpson & Simpson Representatives:

May Yi, Auditor
Etta Hur, Partner
Melba Simpson, Partner

City's Representatives:

Christine Canlas, Senior Accountant
Joyce Reyes, Accounting Manager
Craig Bilezerian, Public Works Director

Matters Discussed:

Results of the audit disclosed no significant control deficiencies and two (2) non-compliance issue with Metro Guidelines.

A copy of this report was forwarded to the following City representative(s) for their comments prior to the issuance of the final report:

Christine Canlas, Senior Accountant

Simpson & Simpson, LLP
633 West 5th Street, Suite 3320
Los Angeles, CA 90071

RE: CITY OF TORRANCE ANNUAL FINANCIAL REPORT OF THE PROPOSITION A LOCAL RETURN FUND, PROPOSITION C LOCAL RETURN FUND, MEASURE R LOCAL RETURN FUND, MEASURE M LOCAL RETURN FUND AND TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

I have received the annual financial report of the Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, Measure M Local Return Fund and Transportation Development Act Article 3 Fund for the years ended June 30, 2019 and 2018 for the City of Torrance and agree with the contents of the report except as indicated below:

(Attach additional pages if necessary)

Very truly yours,

Name

Title

Date