

***CITY OF TORRANCE
ANNUAL FINANCIAL REPORT OF THE
MEASURE M 20% TRANSIT OPERATIONS FUND
FOR THE FISCAL YEAR ENDED
JUNE 30, 2019***



Metro[®]



Simpson & Simpson, LLP
Certified Public Accountants

CITY OF TORRANCE
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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 Measure M 20% Transit Operations Fund (the MMOTF) 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, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinion.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the MMTOF of the City of Torrance, California, as of June 30, 2019, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the MMTOF 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 the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of MMTOF. 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 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 financial statements or to the 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 the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2019, on our consideration of the City's internal control over the Fund's financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over the Fund's financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over the Fund's financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Simpson & Simpson".

Los Angeles, California
December 16, 2019

CITY OF TORRANCE
MEASURE M 20% TRANSIT OPERATIONS FUND
BALANCE SHEET
 June 30

	2019
ASSETS	
Cash and investments	\$ <u> -</u>
Total assets	\$ <u><u> -</u></u>
 LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ <u> -</u>
Total liabilities	<u> -</u>
 Fund Balance	
Restricted	<u> -</u>
Total fund balance	<u> -</u>
Total liabilities and fund balance	\$ <u><u> -</u></u>

The accompanying notes are an integral part of the financial statements

CITY OF TORRANCE
MEASURE M 20% TRANSIT OPERATIONS FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE
For the Fiscal Year Ended June 30, 2019

		2019
REVENUES		
Measure M 20% Transit Operations	\$	4,982,682
Total revenues		4,982,682
 EXPENDITURES		
Transit operating costs		4,982,682
Total expenditures		4,982,682
 Excess of revenues over expenditures		-
 Fund balance at beginning of the year		-
 Fund balance at end of year	\$	-

The accompanying notes are an integral part of the financial statements

CITY OF TORRANCE
MEASURE M 20% TRANSIT OPERATIONS FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES
ACTUAL AND METRO APPROVED PROJECT BUDGET
For the Fiscal Year Ended June 30, 2019

Project Code	Project Name	2019		Variance
		Metro Budget	Actual	Favorable (Unfavorable)
N/A	Transit operating costs	\$ 4,982,682	\$ 4,982,682	\$ -
	Total expenditures	\$ 4,982,682	\$ 4,982,682	\$ -

See accompanying independent auditor's report.

CITY OF TORRANCE
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The operations of the Measure M 20% Transit Operations Fund (MMTOF) is accounted for in the City’s Transit Fund, with a separate funding source account coding to monitor the receipts of revenues and payments of expenditures.

The MMTOF represents 20% of a half-cent Measure M sales tax which is allocated through a Board-adopted Formula Allocation Procedure (FAP) to the countywide transit service operated by Los Angeles County Metropolitan Transportation Authority (Metro) and the included and eligible municipal operators. The purpose of the Measure M 20% Transit Operations Program is to improve countywide transit service operations, maintenance, and expansion. The intent of Measure M is to increase revenues available for the public transit system. The program is flexible to allow each operator to determine how best to accomplish making public transportation more convenient, affordable, and improve quality of life.

Funds are distributed to the jurisdictions based on a Memorandum of Understanding (MOU) between the operator and Metro. The operator is required to submit a Measure M 20% Improvement Plan (Improvement Plan) that includes a description of how these funds will be spent. The Improvement Plan also explains how these services will meet the program objective and benefit transit users. Eligible projects include operating expenses for transit service, maintenance and any other operating expenses that will contribute to meet the program’s purpose and objectives.

Basis of Accounting and Measurement Focus

MMTOF is accounted for using the modified accrual basis of accounting whereby revenues are recognized when they become "susceptible to accrual", that is, measurable and available to finance expenditures of the current period and expenditures are recorded when the related fund liabilities are incurred.

MMTOF is 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. Statements of revenues, expenditures and changes in fund balance for MMTOF generally present 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 Year Ended June 30, 2019
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement

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

Fund Balance Reporting

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

MMTOF reports the following fund balance classification as of June 30, 2019:

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

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

NOTE 2 – ANNUAL FINANCIAL STATEMENTS

The financial statements reflect only the financial position and results of operations of MMTOF and their compliance with Measure M Final Guidelines Section XXII. 20% Transit Operations and the City's Memorandum of Understanding (collectively, the Guidelines).

NOTE 3 – MEASURE M 20% TRANSIT OPERATIONS COMPLIANCE REQUIREMENTS

In accordance with the Guidelines, funds received may only be used for eligible operating expenses that include transit operations for countywide transit service operations, maintenance, and expansion and any other operating expenses that will contribute to meet the program's purpose and objective. See accompanying Compliance Matrix for compliance requirements.

NOTE 4 – SUBSEQUENT EVENTS

The City has evaluated events or transactions that occurred subsequent to June 30, 2019 through December 16, 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 Measure M 20% Transit Operations Fund of the City of Torrance, California (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 16, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the 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 opinion on the 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 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.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's Measure M 20% Transit Operations Fund financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is 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 cursive script that reads "Simpson & Simpson".

Los Angeles, California
December 16, 2019

COMPLIANCE SECTION



SIMPSON & SIMPSON

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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 (City) with the Measure M Final Guidelines Section XXII. 20% Transit Operations as well as its Memorandum of Understanding with the Los Angeles County Metropolitan Transportation Authority (Metro) (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 Measure M 20% Transit Operations Program occurred. An audit includes examining, on a test basis, evidence about 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. Our audit does not provide a legal determination of City's compliance with the Guidelines.

Opinion on Measure M 20% Transit Operations

In our opinion, the City complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2019.



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Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Guidelines and which is described in the accompanying Schedule of Findings and Recommendations as Finding No. 2019-001. Our opinion is not modified with respect to this matter.

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

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 black ink, appearing to read 'Simpson & Simpson', written in a cursive style.

Los Angeles, California
December 16, 2019

CITY OF TORRANCE
COMPLIANCE MATRIX
For the Fiscal Year Ended June 30, 2019

Compliance Requirement		In Compliance			Questioned Costs	If no, provide details and management response.
		Yes	No	N/A		
Measure M 20% Transit Operations Fund						
1.	A signed memorandum of understanding exists between Metro and the jurisdiction.	X			None	
2.	Timely use of funds.	X			None	
3.	Measure M 20% Improvement Plan (Expenditure Plan) was submitted to Metro.	X			None	
4.	Expenditures were approved before being incurred.	X			None	
5.	Funds were used on approved projects only.	X			None	
6.	Funds were not used to supplant any funds authorized by other provisions of law and allocated by Metro for public transit.	X			None	
7.	An Annual Report has been provided to Metro.	X			None	
8.	Accounting procedures, record keeping and documentation are adequate.	X			None	
9.	Quarterly reports provided to Metro were submitted timely.		X		None	See Finding 2019-001 on the Schedule of Findings and Recommendations.
10.	Lapsed funds returned to Metro.			X	None	

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

MMTOF: Finding No. 2019-001

Compliance Requirement	<p>According to the Measure M 20% reporting requirement outlined in the Memorandum of Understanding (MOU) between the operators and LACMTA, the “Grantee shall provide quarterly reports to LACMTA that are consistent with the annual Improvement Plan. The quarterly reports are in addition to the annual Improvement Plan. LACMTA will compile GRANTEE’s quarterly reports into a regional Measure M 20% Program update for the Measure M Independent Taxpayer Oversight Committee.” The quarterly reports provided to Metro also describing how Measure M 20% funds are contributing to accomplishing the program objectives.</p> <p>In addition, LACMTA Program Manager emailed all operators on September 2017 to remind them of the requirements for the Measure M 20% Fund, including the quarterly report due dates to Metro’s Local Programming Manager which should be no later than 45 days after the end of each quarter (i.e., Qtr. 1 – November 15, Qtr. 2 – February 15, Qtr. 3 – May 15, and Qtr. 4 – August 15).</p>
Condition	<p>The LACMTA Program Manager confirmed receipt of all four (4) Measure M 20% quarterly reports for FY 2018-19 from the City. However, the City did not maintain proof of submission for all quarterly reports. As a result, we were unable to determine if the quarterly reports were timely submitted.</p>
Cause	<p>The Administrative Manager stated that they were having problems with accessing computer archived emails.</p>
Effect	<p>The City was not in compliance with the reporting requirement for Measure M 20% outlined in the MOU between the City and LACMTA.</p>
Recommendation	<p>We recommend that the City establish procedures to ensure that quarterly report submission support is maintained, and that a confirmation of receipt by Metro is retained to indicate the form was submitted on time.</p>
Management’s Response	<p>It was due to an oversight as the Measure M Funds are new in FY 2019. Management is requiring that Staff improve effort to submit reports on time.</p>
Finding Corrected During the Audit	<p>The City submitted all quarterly reports to LACMTA. No follow up is required.</p>

EXIT CONFERENCE

CITY OF TORRANCE
MEASURE M 20% TRANSIT OPERATIONS FUND
EXIT CONFERENCE
June 30, 2019

An exit conference was held on December 16, 2019 with the City of Torrance. Those in attendance were:

Simpson & Simpson Representative:

Austine Cho, Audit Senior

City's Representative:

Joyce Reyes – Accounting Manager

Matters Discussed:

Results of the audit disclosed no significant control deficiencies and one (1) 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:

Joyce Reyes – Accounting Manager
James Lee – Transit Administration Manager
Christine Canlas – Senior Accountant

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

RE: CITY OF TORRANCE ANNUAL FINANCIAL REPORT OF THE MEASURE M 20% TRANSIT
OPERATIONS FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2019

I have received the annual financial report of the Measure M 20% Transit Operations Fund for the year ended June 30, 2019 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