



# Measure R Oversight Committee Annual Report on FY11 Audits

April 4, 2012

## Measure R Independent Taxpayers Oversight Committee of Metro

On November 4, 2008, Los Angeles County voters approved Measure R, a 1/2 of one percent transactions and use tax to fund transportation improvements in the County. An Independent Taxpayers Oversight Committee and an oversight process was also established to ensure that Metro is in compliance with Measure R requirements. The oversight process requires an annual audit be conducted and requires the Committee produce an annual report on the audit(s).



**Metro**<sup>®</sup>

# Measure R

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Independent  
Taxpayers  
Oversight  
Committee of  
Metro

January 31, 2013

To: Board of Directors

From: Justice Candace Cooper, Chair  
Measure R Independent Taxpayers Oversight Committee

Subject: Annual Report on Audits of FY 2011 Measure R Expenditures

One Gateway Plaza,  
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On November 4, 2008, Los Angeles County voters approved Measure R that imposed a 1/2 of one percent transactions and use tax to fund county transportation improvements. Measure R established an Independent Taxpayers Oversight Committee and an oversight process to ensure that the Los Angeles County Metropolitan Transportation Authority complies with the Ordinance.

## Committee Members

Justice Candace  
Cooper Chair

Judge Robert W. Parkin  
Vice Chair

Judge Richard  
Kolostian

In compliance with the Ordinance, independent audits of the Measure R Special Revenue Fund and local sub-recipients were prepared. In early February 2012, the Committee received the three audit reports for review. On February 21, 2012, the Oversight Committee held a special workshop to discuss the audit results with the Committee's Advisory Panel finance expert and finalized the Draft Annual Report. The Draft Annual Report and audits were distributed to Los Angeles County libraries and a notice of public hearing was posted in local newspapers.

On April 4, 2012, the Committee held a public hearing to receive comments on the Draft Annual Report and audits, and a regular meeting to approve the Report and findings. Public comment was received on the audits and the Committee's Annual Report. At the meeting, the Committee approved the Annual Report and its findings. A copy of the Committee's Annual Report is attached for your review.

The Committee will be convening soon to review the audits of the Measure R Special Revenue Fund and local sub-recipient compliance with the Measure R Local Return program for the year ended June 30, 2012. If you have further questions, please contact Cosette Stark at (213) 922-2822.

Respectfully Submitted,



Justice Candace Cooper  
Chair  
Measure R Independent Taxpayers Oversight Committee

**MEASURE R INDEPENDENT TAXPAYERS OVERSIGHT COMMITTEE  
OF METRO  
ANNUAL REPORT ON FY11 MEASURE R AUDITS**

**INTRODUCTION**

On November 4, 2008, Los Angeles County voters approved Measure R that imposed an additional half-cent transactions and use tax to fund transportation improvements in the County. Measure R, also known as the Traffic Relief and Rail Expansion Ordinance establishes an Independent Taxpayers Oversight Committee and an oversight process to ensure that the Los Angeles County Metropolitan Transportation Authority (Metro) complies with the terms of the Ordinance. The oversight process requires that an annual audit be conducted within six months after the end of the fiscal year to determine compliance with the provisions of the Ordinance related to the receipt and expenditure of sales tax revenues during the fiscal year. The audits must be provided to the Oversight Committee so that it can determine whether Metro and local subrecipients have complied with the Measure R requirements (see Exhibit 1). In compliance with the Ordinance, Metro contracted with Thompson, Cobb, Bazilio and Associates (TCBA) to perform the independent audit of the Measure R Special Revenue Fund. This year, for efficiency and effectiveness, Metro contracted with two firms to conduct the audits of Measure R sales tax revenues used by 87 cities (Cities) as well as the County of Los Angeles (County). The report performed by Vasquez & Company covers the audits of 49 of the Cities and the report performed by Simpson & Simpson covers the audits of 38 of the Cities as well as the County. (These Audits are attached as Exhibits 2, 3, and 4.)

**THE AUDITS**

The Measure R audit found that Metro complied, in all material respects, with the requirements that are applicable to the Measure R revenues and expenditures for the year ended June 30, 2011. The audits of compliance with the Local Return Guidelines by the 87 cities and the County of Los Angeles found 39 instances of noncompliance, 36 of which were deemed non-material.

**MEASURE R OVERSIGHT COMMITTEE REVIEW**

The Measure R Oversight Committee received the three audit reports in early February 2012. Each member of the Committee reviewed the reports, and the Committee met on February 21, 2012. At that meeting, the Committee received a formal presentation from each of the three auditors on their audit reports. The Committee asked questions and received satisfactory answers to questions regarding the design of each audit engagement, the auditor selection process, and the audit procedures each auditor used in conducting their audits. The Committee expressed concern that many of the instances of non-compliance by the cities were procedural in nature, and received explanation from Metro's Chief Auditor, Ruthe Holden, that this was due to some extent to this being a relatively new program. The Committee recommended education and training to help reduce non-compliance in the future. The Committee also inquired into the procedure for settlements from the cities where a city did not comply or disagrees with the Audit finding. The Committee requested a status update regarding these settlements at a future meeting. The Committee also received a presentation from its Advisory Panel Public Finance Expert, Lori Raineri of Government Financial Strategies,

and a presentation on the status of major Measure R transit and highway projects from Metro's Project Management Oversight and Highway Project Delivery Departments.

**MEASURE R OVERSIGHT COMMITTEE FINDINGS**

The Committee finds the auditing procedures and audits acceptable for determining compliance with Measure R, and further finds that education and training is needed to improve compliance at the local level.

**RESOLUTION OF THE INDEPENDENT TAXPAYERS OVERSIGHT COMMITTEE  
MAKING FINDINGS REGARDING THE ANNUAL AUDIT PURSUANT TO THE  
MEASURE R ORDINANCE**

WHEREAS, On November 4, 2008, Los Angeles County voters approved Measure R that imposed an additional half-cent transactions and use tax to fund transportation improvements in the County; and

WHEREAS, Measure R, also known as the Traffic Relief and Rail Expansion Ordinance establishes an Independent Taxpayers Oversight Committee and an oversight process to ensure that the Los Angeles County Metropolitan Transportation Authority (Metro) complies with the terms of the Ordinance; and

WHEREAS, the oversight process requires that an annual audit be conducted within six months after the end of the fiscal year to determine compliance with the provisions of the Ordinance related to the receipt and expenditure of sales tax revenues during the fiscal year; and

WHEREAS, the audits must be provided to the Oversight Committee so that the Oversight Committee can determine whether Metro and local subrecipients have complied with the Measure R requirements; and

WHEREAS, under contract with Metro, Thompson, Cobb, Bazilio and Associates (TCBA) performed the independent audit of the Measure R Special Revenue Fund, and Vasquez & Company, LLP and Simpson & Simpson audited the compliance of the 87 cities (Cities) and the County of Los Angeles (County); and

NOW, THEREFORE, the Measure R Independent Taxpayers Oversight Committee of Metro finds that:

The audits were performed in accordance with the Ordinance that the voters approved in 2008;

Metro complied, in all material respects, with the requirements applicable to the Measure R revenues and expenditures for the year ended June 30, 2011; and

The audits of Measure R sales tax revenues used by the 87 cities and the County of Los Angeles found 39 instances of noncompliance with requirements applicable to the Measure R Local Return program for the year ended June 30, 2011, 36 of which were deemed non-material.

Education and training should be implemented to improve compliance in the coming year.

Adopted this 4<sup>th</sup> day of April, 2012.

**THOMPSON, COBB, BAZILIO & ASSOCIATES, PC**  
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT, SYSTEMS, AND FINANCIAL CONSULTANTS

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November 28, 2011

**Measure R Independent Taxpayers Oversight Committee  
Los Angeles County Metropolitan Transportation Authority**

We have audited the Schedules of Measure R Revenues and Expenditures (the "Schedules") of the Los Angeles County Metropolitan Transportation Authority ("LACMTA") for the year ended June 30, 2010, and have issued our report thereon dated November 28, 2011. Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility under Generally Accepted Auditing Standards (and when applicable, Government Auditing Standards)**

Our responsibility, as described by professional standards, is to form and express an opinion about whether the schedules that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the schedules does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the schedules are free of material misstatement. An audit of the schedules includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of Measure R funds solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

There were no findings regarding significant control deficiencies over financial reporting and material noncompliance noted during our audit.

## **Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to management of LACMTA during our entrance conference.

## **Qualitative Aspects of the Entity's Significant Accounting Practices**

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by LACMTA is included in Note 2 to the schedules. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2011. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Disclosures*

There were no significant disclosures noted in the schedules.

## **Significant Difficulties Encountered during the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

## **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. There are no uncorrected misstatements relating to revenues and expenditures of Measure R funds.

## **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the schedules or the auditor's report. No such disagreements arose during the course of the audit.

## **Representations Requested from Management**

We have requested certain written representations from management, which are included in the attached letter dated November 28, 2011.

### **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

### **Other Significant Findings or Issues**

In the normal course of our professional association with LACMTA, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as LACMTA's auditors.

This report is intended solely for the use of the LACMTA Board of Directors and management, and the Measure R Independent Taxpayers Oversight Committee and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Thompson, Cobb, Bazilio & Associates, P.C.*





*LACMTA*

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY

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**Independent Auditor's Report  
on Schedule of Revenues and Expenditures  
for Measure R  
Special Revenue Fund  
For the Year Ended June 30, 2011  
(With Comparative Totals for 2010)**

**TCBA**

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**THOMPSON, COBB, BAZILIO & ASSOCIATES, P.C.**

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**Los Angeles County Metropolitan Transportation Authority**  
**Independent Auditor's Report on**  
**Schedule of Revenues and Expenditures**  
**For**  
**Measure R**  
**Special Revenue Fund**  
  
**For The Year Ended June 30, 2011**  
**(With Comparative Totals for 2010)**

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**THOMPSON, COBB, BAZILIO & ASSOCIATES, PC**  
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**Independent Auditor's Report**

**Measure R Independent Taxpayers Oversight Committee  
Los Angeles County Metropolitan Transportation Authority**

We have audited the accompanying Schedules of Measure R Revenues and Expenditures (the "Schedules") of the Los Angeles County Metropolitan Transportation Authority ("LACMTA") as of and for the year ended June 30, 2011. These Schedules are the responsibility of LACMTA's management. Our responsibility is to express an opinion on these Schedules based on our audit. The prior year's summarized comparative information has been derived from the 2010 Schedules of Measure R Revenues and Expenditures and, in our report dated November 16, 2010, we expressed an unqualified opinion on those Schedules.

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 Schedules of Measure R revenues and expenditures are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Schedules referred to above present fairly, in all material respects, the Measure R revenues and expenditures of LACMTA as of June 30, 2011, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 28, 2011, on our consideration of LACMTA's internal control over 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 financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Torrance, CA  
November 28, 2011

*Thompson, Cobb, Bazilio & Associates, P.C.*

**Los Angeles County Metropolitan Transportation Authority**  
**Measure R Special Revenue Fund**  
**Schedule of Revenues and Expenditures**  
**For the year ended June 30, 2011**  
**(With Comparative Totals for 2010)**

(Amounts expressed in thousands)

	<b>2011</b>	<b>2010</b>
<b>Revenues:</b>		
Sales tax	\$ 598,647	\$ 551,480
Intergovernmental	176	4,371
Investment income	10,372	2,656
Net appreciation (decline) in fair value of investments	(2,475)	3,604
<b>Total revenues</b>	<b>606,720</b>	<b>562,111</b>
<b>Expenditures:</b>		
Administration and other transportation projects	83,765	52,306
Transportation subsidies	148,077	118,143
<b>Total expenditures</b>	<b>231,842</b>	<b>170,449</b>
<b>Excess of revenues over expenditures</b>	<b>374,878</b>	<b>391,662</b>
<b>Other financing sources (uses)</b>		
Operating transfers in	57,379	29,353
Operating transfers out	(204,458)	(37,350)
<b>Total other financing sources (uses)</b>	<b>(147,079)</b>	<b>(7,997)</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>	<b>\$ 227,799</b>	<b>\$ 383,665</b>

The notes to the schedule of revenues and expenditures are an integral part of this schedule.

**Los Angeles County Metropolitan Transportation Authority**  
**Measure R Special Revenue Fund**  
**Schedule of Revenues and Expenditures – Budget to Actual**  
**For the year ended June 30, 2011**

(Amounts expressed in thousands)

	<b>Budget</b>	<b>Actual</b>	<b>Favorable (Unfavorable)</b>
<b>Revenues:</b>			
Sales tax	\$ 589,803	\$ 598,647	\$ 8,844
Intergovernmental	2,450	176	(2,274)
Investment income	-	10,372	10,372
Net decline in fair value of investments	-	(2,475)	(2,475)
<b>Total revenues</b>	<b>592,253</b>	<b>606,720</b>	<b>14,467</b>
<b>Expenditures:</b>			
Administration and other transportation projects	289,527	83,765	205,762
Transportation subsidies	271,201	148,077	123,124
<b>Total expenditures</b>	<b>560,728</b>	<b>231,842</b>	<b>328,886</b>
Excess of revenues over expenditures	31,525	374,878	343,353
<b>Other financing sources (uses)</b>			
Operating transfers in	98,014	57,379	(40,635)
Operating transfers out	(197,419)	(204,458)	(7,039)
<b>Total other financing sources (uses)</b>	<b>(99,405)</b>	<b>(147,079)</b>	<b>(47,674)</b>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<b>\$ (67,880)</b>	<b>\$ 227,799</b>	<b>\$ 295,679</b>

The notes to the schedule of revenues and expenditures are an integral part of this schedule.

**Los Angeles County Metropolitan Transportation Authority**  
**Measure R Special Revenue Fund**  
**Notes to Schedule of Revenues and Expenditures**

**June 30, 2011**

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**1. Organization**

**General**

The Los Angeles County Metropolitan Transportation Authority (“LACMTA”) is governed by a Board of Directors composed of the five members of the County Board of Supervisors, the Mayor of the City of Los Angeles, three members appointed by the Mayor, and four members who are either mayors or members of a city council and have been appointed by the Los Angeles County City Selection Committee to represent the other cities in the County, and a non-voting member appointed by the Governor of the State of California.

LACMTA is unique among the nation's transportation agencies. It serves as transportation planner and coordinator, designer, builder and operator for one of the country's largest, most populous counties. More than 10 million people – about one fourth of California's residents - live, work, and play within its 1,433-square-mile service area.

**Measure R**

Measure R, also known as the Traffic Relief and Rail Expansion Ordinance is a special revenue fund used to account for the proceeds of the voter-approved one-half percent sales tax that became effective on July 1, 2009 and continuing on for the next 30 years. Revenues collected are allocated to: 1) 2% for rail capital improvements; 2) 3% for Metrolink capital improvement projects within Los Angeles County; 3) 5% for rail operations for new transit project operations and maintenance; 4) 15% for local return; 5) 20% for countywide bus service operations, maintenance, and expansion; 6) 20% for highway capital projects; and 7) 35% for transit capital specific projects.

**2. Summary of Significant Accounting Policies**

The Schedules of Revenues and Expenditures for Measure R Special Revenue Fund have been prepared in conformity with Generally Accepted Accounting Principles in the United States of America (“GAAP”) as applied to government units. The Governmental Accounting Standards Board (“GASB”) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles for governments. The more significant of LACMTA’s accounting policies with regard to the special revenue fund type are described below:

**Los Angeles County Metropolitan Transportation Authority**  
**Measure R Special Revenue Fund**  
**Notes to Schedule of Revenues and Expenditures**

**June 30, 2011**

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**2. Summary of Significant Accounting Policies (Continued)**

**Fund Accounting**

LACMTA utilizes fund accounting to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary, and fiduciary. Governmental Funds are used to account for most of LACMTA's governmental activities. The measurement focus is a determination of changes in financial position, rather than a net income determination. LACMTA uses governmental fund type Special Revenue Funds to account for Measure R sales tax revenues and expenditures. Special Revenue Funds are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

**Basis of Accounting**

The modified accrual basis of accounting is used for the special revenue fund type. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, which means measurable (amount can be determined) and available (collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period).

**Budgetary Accounting**

The established legislation and adopted policies and procedures provide that the LACMTA's Board approves an annual budget. Annual budgets are adopted on a basis consistent with generally accepted accounting principles in the United States of America for all governmental funds.

Prior to the adoption of the budget, the Board conducts public hearings for discussion of the proposed annual budget and at the conclusion of the hearings, but not later than June 30, adopts the final budget. All appropriations lapse at fiscal year end. The budget is prepared by fund, project, expense type, and department. The legal level of control is at the fund level and the Board must approve additional appropriations.

**Los Angeles County Metropolitan Transportation Authority**  
**Measure R Special Revenue Fund**  
**Notes to Schedule of Revenues and Expenditures**

**June 30, 2011**

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**2. Summary of Significant Accounting Policies (Continued)**

**Budgetary Accounting (Continued)**

By policy, the Board has provided procedures for management to make revisions within operational or project budgets only when there is no net dollar impact to the total appropriations at the fund level. Budget amendments are made when needed.

Annual budgets are adopted by LACMTA on the modified accrual basis of accounting for the special revenue fund types, on a basis consistent with GAAP as reflected in the Schedules.

**Interest Income and Appreciation (Decline) in Fair Value of Investments**

The net appreciation (decline) in the fair value of investments is shown on the Schedule of Revenues and Expenditures. LACMTA maintains a pooled cash and investments account that is available for use by all funds, except those restricted by state statutes.

**Use of Estimates**

The preparation of the Schedules in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**3. Intergovernmental Transactions**

Any transaction conducted with a governmental agency outside the complete jurisdiction of LACMTA will be recorded in an account designated as Intergovernmental.

**4. Operating Transfers**

Amounts reflected as operating transfers represent permanent, legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended. All operating transfers in/out of the Measure R Special Revenue Fund have been made in accordance with all expenditure requirements of the Measure R Ordinance.



**Los Angeles County Metropolitan Transportation Authority  
Measure R Special Revenue Fund  
Notes to Schedule of Revenues and Expenditures**

**June 30, 2011**

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**5. Audited Financial Statements**

The audited financial statements for Measure R Special Revenue Fund for the year ended June 30, 2011 are included in LACMTA's Annual Audited Financial Report.

# THOMPSON, COBB, BAZILIO & ASSOCIATES, PC

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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***

Measure R Independent Taxpayers Oversight Committee  
Los Angeles County Metropolitan Transportation Authority

We have audited the accompanying Schedules of Revenues and Expenditures (the "Schedules") for Measure R Special Revenue Fund of the Los Angeles County Metropolitan Transportation Authority ("LACMTA") as of and for the fiscal year ended June 30, 2011, and have issued our report thereon dated, November 28, 2011. 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.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the LACMTA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Schedules, but not for the purpose of expressing an opinion on the effectiveness of the LACMTA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the LACMTA's internal control over financial reporting.

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 LACMTA's Schedules will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the LACMTA's Schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the LACMTA Board of Directors and management, and the Measure R Independent Taxpayers Oversight Committee and is not intended to be and should not be used by anyone other than these specified parties.

Torrance, California  
November 28, 2011

*Thompson, Cobb, Bazilio & Associates, P.C.*

**THOMPSON, COBB, BAZILIO & ASSOCIATES, PC**  
**CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT, SYSTEMS, AND FINANCIAL CONSULTANTS**

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**Independent Auditor's Report on Compliance with Requirements Applicable to  
Measure R Revenues and Expenditures in Accordance with the  
*Traffic Relief and Rail Expansion Ordinance***

Measure R Independent Taxpayers Oversight Committee  
Los Angeles County Metropolitan Transportation Authority

**Compliance**

We have audited the compliance of the Los Angeles County Metropolitan Transportation Authority ("LACMTA") with the types of compliance requirements described in the *Traffic Relief and Rail Expansion Ordinance* (the Ordinance) that are applicable to Measure R revenues and expenditures for the year ended June 30, 2011. Compliance with the requirements of the laws and the Ordinance applicable to its Measure R revenues and expenditures is the responsibility of LACMTA's management. Our responsibility is to express an opinion on LACMTA'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 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 noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on Measure R revenues and expenditures occurred. An audit includes examining, on a test basis, evidence about LACMTA'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. Our audit does not provide a legal determination on LACMTA's compliance with those requirements.

In our opinion, LACMTA complied, in all material respects, with the requirements referred to above that are applicable to the Measure R revenues and expenditures for the year ended June 30, 2011.

## **Internal Control Over Compliance**

Management of the LACMTA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations applicable to the Measure R revenues and expenditures. In planning and performing our audit, we considered the LACMTA's internal control over compliance requirements that could have a direct and material effect on the Measure R revenues and expenditures in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Ordinance, 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 LACMTA'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 with a type of compliance requirement 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 with a type of compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the LACMTA's Board of Directors and management, and the Measure R Independent Taxpayers Oversight Committee, and is not intended to be and should not be used by anyone other than these specified parties.

Torrance, California  
November 28, 2011

*Thompson, Cobb, Bazilio & Associates, P.C.*

**Los Angeles County Metropolitan Transportation Authority  
Measure R Special Revenue Fund  
Current Year Findings**

**For the Year Ended June 30, 2011**

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None noted.

**Los Angeles County Metropolitan Transportation Authority  
Measure R Special Revenue Fund  
Prior Year Findings**

**For the Year Ended June 30, 2011**

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None noted.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO MEASURE R ORDINANCE  
AND MEASURE R LOCAL RETURN GUIDELINES**

**TO THE LOS ANGELES COUNTY  
METROPOLITAN TRANSPORTATION AUTHORITY**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO MEASURE R ORDINANCE AND  
MEASURE R LOCAL RETURN GUIDELINES

To: Board of Directors of the Los Angeles County Metropolitan Transportation Authority  
and Measure R Oversight Committee

**Compliance**

We have audited the compliance of the Cities identified in Schedule 1, with the types of compliance requirements described in the Measure R Ordinance enacted through a Los Angeles County voter approved law in November 2008; Measure R Local Return Guidelines, issued by the Los Angeles County Metropolitan Transportation Authority (LACMTA), approved by its Board of Directors on October 22, 2009 (the "Guidelines"); and the respective Assurances and Understandings Regarding Receipt and Use of Measure R Local Return Funds, executed by LACMTA and the respective Cities and the County for the year ended June 30, 2011 (collectively the "Requirements"). Compliance with the above noted Requirements by the Cities are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the Requirements is the responsibility of the respective Cities' management. Our responsibility is to express an opinion on the Cities' compliance based on our audit.

We conducted our audits of compliance in accordance with the Guidelines, auditing standards generally accepted in the United States of America and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether noncompliance with the types of requirements referred to above that could have a direct and material effect on the Measure R Local Return program occurred. An audit includes examining, on a test basis, evidence about each City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions. Our audits do not provide a legal determination of each City's compliance with those requirements.

As described in Finding Number 2 in the accompanying Schedule of Findings and Questioned Costs, the City of Avalon did not comply with requirements regarding the recording of Measure R revenues that are applicable to its Measure R Local Return Program. Compliance with such requirements is necessary, in our opinion, for the City of Avalon to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Cities complied, in all material respects, with the requirements referred to above that are applicable to the Measure R Local Return program for the year ended June 30, 2011. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with the Guidelines and which are described in the accompanying Summary of Compliance Findings, Schedule 1 and Schedule 2 as Finding Numbers 1, 3 through 21.

## **Internal Control Over Compliance**

The management of each City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal, state and local programs. In planning and performing our audits, we considered each City's internal control over compliance with the requirements that could have a direct and material effect on the Measure R Local Return program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Requirements, 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 Cities' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance under the Requirements 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 Requirements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item Finding Number 2 to be material weakness.

Responses by the Cities to the findings identified in our audits are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the LACMTA, the management, City Councils and others within each City and is not intended to be and should not be used by anyone other than these specified parties.

*Vargus + Company LLP*

Los Angeles, California  
December 21, 2011

### Summary of Compliance Findings

The audit of the 49 cities has resulted in 21 findings. The table below shows a summary of the findings:

Finding	# of Findings	Responsible Cities/ Finding No. Reference	Questioned Costs
No adequate evidence that funds were expended for transportation purposes	1	Burbank (#4)	\$ 256,982
Separate Measure R Local Return Account was not established	3	Avalon (#1), Hawaiian Gardens (#9), La Mirada (#12)	0
Revenues received, including allocations and interest income, were not properly recorded in Measure R Local Return Account	4	Avalon (#2), Bradbury (#3), La Mirada (#13), Redondo Beach (#15)	518,370 (a)
Funds were expended without LACMTA's approval	5	Cerritos (#5), Diamond Bar (#7), Hawaiian Gardens (#10), La Verne (#14), Signal Hill (#18)	828,255
Form One (Expenditure Plan) was not submitted timely	5	Claremont (#6), La Habra Heights (#11), Redondo Beach (#16), Rolling Hills (#17), Signal Hill (#19)	0
Form Two (Expenditure Report) was not submitted timely	2	South Pasadena (#20), Whittier (#21)	0
Administrative expenditures claimed exceeded the 20% admin cap under the Guidelines	1	Downey (#8)	14,779
Total Findings and Questioned Costs	21		\$ 1,618,386

Note (a) This represents the total revenues due to the Measure R Local Return Account.

Details of the findings can be found in Schedule 2.

**Los Angeles County Metropolitan Transit Authority  
Summary of Measure R Audit Results  
Fiscal Year Ended June 30, 2011**

Compliance Area Tested	Alhambra	Arcadia	Artesia
Funds were expended for transportation purposes	Not applicable	Compliant	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes.	Not applicable	Compliant	Compliant
Evidence of signed and returned assurances and understanding agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR Purposes	Compliant	Compliant	Compliant
Verification of revenues received, including allocations, project generated revenues, interest income properly recorded	Compliant	Compliant	Compliant
Verification that funds were expended with LACMTA's approval	Not applicable	Compliant	Compliant
Verification that funds were not substituted for property tax and is compliant with assurance and understanding	Not applicable	Compliant	Compliant
Timely submission of Expenditure Plan (Form One)	Not applicable	Compliant	Compliant
Timely submission of Expenditure Report (Form Two)	Not applicable	Compliant	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditure did not exceed 20% of the total annual LR expenditures	Not applicable	Compliant	Compliant
Approval obtained from LACMTA for fund exchange (trades, loans, or gifts)	Not applicable	Not applicable	Not applicable
Verification that funds expended and reimbursed by another fund, were properly credited to the LR account upon reimbursement	Not applicable	Not applicable	Not applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not applicable	Not applicable	Not applicable
Establishment of, and approval by LACMTA for, a reserve fund	Not applicable	Not applicable	Not applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not applicable	Not applicable	Not applicable
Where recreational Transit Services, Recreational Transit Form submitted timely.	Not applicable	Not applicable	Not applicable

**Los Angeles County Metropolitan Transit Authority**  
**Summary of Measure R Audit Results**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

Compliance Area Tested	Avalon	Bellflower	Bradbury
Funds were expended for transportation purposes	Compliant	Compliant	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes.	Compliant	Compliant	Compliant
Evidence of signed and returned assurances and understanding agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR Purposes	<b>Finding 1</b>	Compliant	Compliant
Verification of revenues received, including allocations, project generated revenues, interest income properly recorded	<b>Finding 2</b>	Compliant	<b>Finding 3</b>
Verification that funds were expended with LACMTA's approval	Compliant	Compliant	Compliant
Verification that funds were not substituted for property tax and is compliant with assurance and understanding	Compliant	Compliant	Compliant
Timely submission of Expenditure Plan (Form One)	Compliant	Compliant	Compliant
Timely submission of Expenditure Report (Form Two)	Compliant	Compliant	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditure did not exceed 20% of the total annual LR expenditures	Compliant	Compliant	Compliant
Approval obtained from LACMTA for fund exchange (trades, loans, or gifts)	Not applicable	Not applicable	Not applicable
Verification that funds expended and reimbursed by another fund, were properly credited to the LR account upon reimbursement	Not applicable	Not applicable	Not applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not applicable	Not applicable	Not applicable
Establishment of, and approval by LACMTA for, a reserve fund	Not applicable	Not applicable	Not applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not applicable	Not applicable	Not applicable
Where recreational Transit Services, Recreational Transit Form submitted timely.	Not applicable	Not applicable	Not applicable

**Los Angeles County Metropolitan Transit Authority**  
**Summary of Measure R Audit Results**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

Compliance Area Tested	Burbank	Cerritos	Claremont
Funds were expended for transportation purposes	<b>Finding 4</b>	Compliant	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes.	Compliant	Compliant	Compliant
Evidence of signed and returned assurances and understanding agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR Purposes	Compliant	Compliant	Compliant
Verification of revenues received, including allocations, project generated revenues, interest income properly recorded	Compliant	Compliant	Compliant
Verification that funds were expended with LACMTA's approval	Compliant	<b>Finding 5</b>	Compliant
Verification that funds were not substituted for property tax and is compliant with assurance and understanding	Compliant	Compliant	Compliant
Timely submission of Expenditure Plan (Form One)	Compliant	Compliant	<b>Finding 6</b>
Timely submission of Expenditure Report (Form Two)	Compliant	Compliant	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditure did not exceed 20% of the total annual LR expenditures	Compliant	Compliant	Compliant
Approval obtained from LACMTA for fund exchange (trades, loans, or gifts)	Not applicable	Not applicable	Not applicable
Verification that funds expended and reimbursed by another fund, were properly credited to the LR account upon reimbursement	Not applicable	Not applicable	Not applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not applicable	Not applicable	Not applicable
Establishment of, and approval by LACMTA for, a reserve fund	Not applicable	Not applicable	Not applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not applicable	Not applicable	Not applicable
Where recreational Transit Services, Recreational Transit Form submitted timely.	Not applicable	Not applicable	Not applicable

**Los Angeles County Metropolitan Transit Authority**  
**Summary of Measure R Audit Results**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

Compliance Area Tested	Covina	Diamond Bar	Downey
Funds were expended for transportation purposes	Compliant	Compliant	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes.	Compliant	Compliant	Compliant
Evidence of signed and returned assurances and understanding agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR Purposes	Compliant	Compliant	Compliant
Verification of revenues received, including allocations, project generated revenues, interest income properly recorded	Compliant	Compliant	Compliant
Verification that funds were expended with LACMTA's approval	Compliant	<b>Finding 7</b>	Compliant
Verification that funds were not substituted for property tax and is compliant with assurance and understanding	Compliant	Compliant	Compliant
Timely submission of Expenditure Plan (Form One)	Compliant	Compliant	Compliant
Timely submission of Expenditure Report (Form Two)	Compliant	Compliant	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditure did not exceed 20% of the total annual LR expenditures	Compliant	Compliant	<b>Finding 8</b>
Approval obtained from LACMTA for fund exchange (trades, loans, or gifts)	Not applicable	Not applicable	Not applicable
Verification that funds expended and reimbursed by another fund, were properly credited to the LR account upon reimbursement	Not applicable	Not applicable	Not applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not applicable	Not applicable	Not applicable
Establishment of, and approval by LACMTA for, a reserve fund	Not applicable	Not applicable	Not applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not applicable	Not applicable	Not applicable
Where recreational Transit Services, Recreational Transit Form submitted timely.	Not applicable	Not applicable	Compliant



**Los Angeles County Metropolitan Transit Authority**  
**Summary of Measure R Audit Results**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

Compliance Area Tested	Duarte	El Segundo	Glendale
Funds were expended for transportation purposes	Not applicable	Not applicable	Not applicable
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes.	Not applicable	Not applicable	Not applicable
Evidence of signed and returned assurances and understanding agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR Purposes	Compliant	Compliant	Compliant
Verification of revenues received, including allocations, project generated revenues, interest income properly recorded	Compliant	Compliant	Compliant
Verification that funds were expended with LACMTA's approval	Not applicable	Not applicable	Not applicable
Verification that funds were not substituted for property tax and is compliant with assurance and understanding	Not applicable	Not applicable	Not applicable
Timely submission of Expenditure Plan (Form One)	Not applicable	Not applicable	Not applicable
Timely submission of Expenditure Report (Form Two)	Not applicable	Not applicable	Not applicable
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditure did not exceed 20% of the total annual LR expenditures	Not applicable	Not applicable	Not applicable
Approval obtained from LACMTA for fund exchange (trades, loans, or gifts)	Not applicable	Not applicable	Not applicable
Verification that funds expended and reimbursed by another fund, were properly credited to the LR account upon reimbursement	Not applicable	Not applicable	Not applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not applicable	Not applicable	Not applicable
Establishment of, and approval by LACMTA for, a reserve fund	Not applicable	Not applicable	Not applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not applicable	Not applicable	Not applicable
Where recreational Transit Services, Recreational Transit Form submitted timely.	Not applicable	Not applicable	Not applicable

**Los Angeles County Metropolitan Transit Authority  
Summary of Measure R Audit Results  
Fiscal Year Ended June 30, 2011  
(Continued)**

Compliance Area Tested	Glendora	Hawaiian Gardens	Hermosa Beach
Funds were expended for transportation purposes	Compliant	Compliant	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes.	Compliant	Compliant	Compliant
Evidence of signed and returned assurances and understanding agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR Purposes	Compliant	<b>Finding 9</b>	Compliant
Verification of revenues received, including allocations, project generated revenues, interest income properly recorded	Compliant	Compliant	Compliant
Verification that funds were expended with LACMTA's approval	Compliant	<b>Finding 10</b>	Compliant
Verification that funds were not substituted for property tax and is compliant with assurance and understanding	Compliant	Compliant	Compliant
Timely submission of Expenditure Plan (Form One)	Compliant	Compliant	Compliant
Timely submission of Expenditure Report (Form Two)	Compliant	Compliant	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditure did not exceed 20% of the total annual LR expenditures	Compliant	Compliant	Compliant
Approval obtained from LACMTA for fund exchange (trades, loans, or gifts)	Not applicable	Not applicable	Not applicable
Verification that funds expended and reimbursed by another fund, were properly credited to the LR account upon reimbursement	Not applicable	Not applicable	Not applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not applicable	Not applicable	Not applicable
Establishment of, and approval by LACMTA for, a reserve fund	Not applicable	Not applicable	Not applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not applicable	Not applicable	Not applicable
Where recreational Transit Services, Recreational Transit Form submitted timely.	Not applicable	Not applicable	Not applicable

**Los Angeles County Metropolitan Transit Authority**  
**Summary of Measure R Audit Results**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

Compliance Area Tested	La Canada- Flintridge	La Habra Heights	La Mirada
Funds were expended for transportation purposes	Not applicable	Compliant	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes.	Not applicable	Compliant	Compliant
Evidence of signed and returned assurances and understanding agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR Purposes	Compliant	Compliant	<b>Finding 12</b>
Verification of revenues received, including allocations, project generated revenues, interest income properly recorded	Compliant	Compliant	<b>Finding 13</b>
Verification that funds were expended with LACMTA's approval	Not applicable	Compliant	Compliant
Verification that funds were not substituted for property tax and is compliant with assurance and understanding	Not applicable	Compliant	Compliant
Timely submission of Expenditure Plan (Form One)	Not applicable	<b>Finding 11</b>	Compliant
Timely submission of Expenditure Report (Form Two)	Not applicable	Compliant	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditure did not exceed 20% of the total annual LR expenditures	Not applicable	Compliant	Compliant
Approval obtained from LACMTA for fund exchange (trades, loans, or gifts)	Not applicable	Not applicable	Not applicable
Verification that funds expended and reimbursed by another fund, were properly credited to the LR account upon reimbursement	Not applicable	Not applicable	Not applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not applicable	Not applicable	Not applicable
Establishment of, and approval by LACMTA for, a reserve fund	Not applicable	Not applicable	Not applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not applicable	Not applicable	Not applicable
Where recreational Transit Services, Recreational Transit Form submitted timely.	Not applicable	Not applicable	Compliant

**Los Angeles County Metropolitan Transit Authority  
Summary of Measure R Audit Results  
Fiscal Year Ended June 30, 2011  
(Continued)**

Compliance Area Tested	La Verne	Lakewood	Lancaster
Funds were expended for transportation purposes	Compliant	Compliant	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes.	Compliant	Compliant	Compliant
Evidence of signed and returned assurances and understanding agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR Purposes	Compliant	Compliant	Compliant
Verification of revenues received, including allocations, project generated revenues, interest income properly recorded	Compliant	Compliant	Compliant
Verification that funds were expended with LACMTA's approval	<b>Finding 14</b>	Compliant	Compliant
Verification that funds were not substituted for property tax and is compliant with assurance and understanding	Compliant	Compliant	Compliant
Timely submission of Expenditure Plan (Form One)	Compliant	Compliant	Compliant
Timely submission of Expenditure Report (Form Two)	Compliant	Compliant	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditure did not exceed 20% of the total annual LR expenditures	Compliant	Compliant	Compliant
Approval obtained from LACMTA for fund exchange (trades, loans, or gifts)	Not applicable	Not applicable	Not applicable
Verification that funds expended and reimbursed by another fund, were properly credited to the LR account upon reimbursement	Not applicable	Not applicable	Not applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not applicable	Not applicable	Not applicable
Establishment of, and approval by LACMTA for, a reserve fund	Not applicable	Not applicable	Not applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not applicable	Not applicable	Not applicable
Where recreational Transit Services, Recreational Transit Form submitted timely.	Not applicable	Not applicable	Not applicable

**Los Angeles County Metropolitan Transit Authority**  
**Summary of Measure R Audit Results**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

Compliance Area Tested	Lomita	Long Beach	Los Angeles
Funds were expended for transportation purposes	Compliant	Compliant	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes.	Compliant	Compliant	Compliant
Evidence of signed and returned assurances and understanding agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR Purposes	Compliant	Compliant	Compliant
Verification of revenues received, including allocations, project generated revenues, interest income properly recorded	Compliant	Compliant	Compliant
Verification that funds were expended with LACMTA's approval	Compliant	Compliant	Compliant
Verification that funds were not substituted for property tax and is compliant with assurance and understanding	Compliant	Compliant	Compliant
Timely submission of Expenditure Plan (Form One)	Compliant	Compliant	Compliant
Timely submission of Expenditure Report (Form Two)	Compliant	Compliant	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditure did not exceed 20% of the total annual LR expenditures	Compliant	Compliant	Compliant
Approval obtained from LACMTA for fund exchange (trades, loans, or gifts)	Not applicable	Not applicable	Not applicable
Verification that funds expended and reimbursed by another fund, were properly credited to the LR account upon reimbursement	Not applicable	Not applicable	Not applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not applicable	Not applicable	Not applicable
Establishment of, and approval by LACMTA for, a reserve fund	Not applicable	Not applicable	Not applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not applicable	Not applicable	Not applicable
Where recreational Transit Services, Recreational Transit Form submitted timely.	Not applicable	Compliant	Not applicable

**Los Angeles County Metropolitan Transit Authority  
Summary of Measure R Audit Results  
Fiscal Year Ended June 30, 2011  
(Continued)**

<b>Compliance Area Tested</b>	<b>Manhattan Beach</b>	<b>Monrovia</b>	<b>Norwalk</b>
Funds were expended for transportation purposes	Compliant	Not applicable	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes.	Compliant	Not applicable	Compliant
Evidence of signed and returned assurances and understanding agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR Purposes	Compliant	Compliant	Compliant
Verification of revenues received, including allocations, project generated revenues, interest income properly recorded	Compliant	Compliant	Compliant
Verification that funds were expended with LACMTA's approval	Compliant	Not applicable	Compliant
Verification that funds were not substituted for property tax and is compliant with assurance and understanding	Compliant	Not applicable	Compliant
Timely submission of Expenditure Plan (Form One)	Compliant	Not applicable	Compliant
Timely submission of Expenditure Report (Form Two)	Compliant	Not applicable	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditure did not exceed 20% of the total annual LR expenditures	Compliant	Not applicable	Compliant
Approval obtained from LACMTA for fund exchange (trades, loans, or gifts)	Not applicable	Not applicable	Not applicable
Verification that funds expended and reimbursed by another fund, were properly credited to the LR account upon reimbursement	Not applicable	Not applicable	Not applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not applicable	Not applicable	Not applicable
Establishment of, and approval by LACMTA for, a reserve fund	Not applicable	Not applicable	Not applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not applicable	Not applicable	Not applicable
Where recreational Transit Services, Recreational Transit Form submitted timely.	Not applicable	Not applicable	Not applicable

**Los Angeles County Metropolitan Transit Authority  
Summary of Measure R Audit Results  
Fiscal Year Ended June 30, 2011  
(Continued)**

Compliance Area Tested	Palos Verdes		
	Palmdale	Estates	Paramount
Funds were expended for transportation purposes	Compliant	Not applicable	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes.	Compliant	Not applicable	Compliant
Evidence of signed and returned assurances and understanding agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR Purposes	Compliant	Compliant	Compliant
Verification of revenues received, including allocations, project generated revenues, interest income properly recorded	Compliant	Compliant	Compliant
Verification that funds were expended with LACMTA's approval	Compliant	Not applicable	Compliant
Verification that funds were not substituted for property tax and is compliant with assurance and understanding	Compliant	Not applicable	Compliant
Timely submission of Expenditure Plan (Form One)	Compliant	Not applicable	Compliant
Timely submission of Expenditure Report (Form Two)	Compliant	Not applicable	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditure did not exceed 20% of the total annual LR expenditures	Compliant	Not applicable	Compliant
Approval obtained from LACMTA for fund exchange (trades, loans, or gifts)	Not applicable	Not applicable	Not applicable
Verification that funds expended and reimbursed by another fund, were properly credited to the LR account upon reimbursement	Not applicable	Not applicable	Not applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not applicable	Not applicable	Not applicable
Establishment of, and approval by LACMTA for, a reserve fund	Not applicable	Not applicable	Not applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not applicable	Not applicable	Not applicable
Where recreational Transit Services, Recreational Transit Form submitted timely.	Not applicable	Not applicable	Not applicable

**Los Angeles County Metropolitan Transit Authority**  
**Summary of Measure R Audit Results**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

Compliance Area Tested	Pasadena	Rancho Palos Verdes	Redondo Beach
Funds were expended for transportation purposes	Compliant	Compliant	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes.	Compliant	Compliant	Compliant
Evidence of signed and returned assurances and understanding agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR Purposes	Compliant	Compliant	Compliant
Verification of revenues received, including allocations, project generated revenues, interest income properly recorded	Compliant	Compliant	<b>Finding 15</b>
Verification that funds were expended with LACMTA's approval	Compliant	Compliant	Compliant
Verification that funds were not substituted for property tax and is compliant with assurance and understanding	Compliant	Compliant	Compliant
Timely submission of Expenditure Plan (Form One)	Compliant	Compliant	<b>Finding 16</b>
Timely submission of Expenditure Report (Form Two)	Compliant	Compliant	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditure did not exceed 20% of the total annual LR expenditures	Compliant	Compliant	Compliant
Approval obtained from LACMTA for fund exchange (trades, loans, or gifts)	Not applicable	Not applicable	Not applicable
Verification that funds expended and reimbursed by another fund, were properly credited to the LR account upon reimbursement	Not applicable	Not applicable	Not applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not applicable	Not applicable	Not applicable
Establishment of, and approval by LACMTA for, a reserve fund	Not applicable	Not applicable	Not applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not applicable	Not applicable	Not applicable
Where recreational Transit Services, Recreational Transit Form submitted timely.	Not applicable	Not applicable	Not applicable



**Los Angeles County Metropolitan Transit Authority  
Summary of Measure R Audit Results  
Fiscal Year Ended June 30, 2011  
(Continued)**

Compliance Area Tested	Rolling Hills		
	Rolling Hills	Estates	San Dimas
Funds were expended for transportation purposes	Compliant	Compliant	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes.	Compliant	Compliant	Compliant
Evidence of signed and returned assurances and understanding agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR Purposes	Compliant	Compliant	Compliant
Verification of revenues received, including allocations, project generated revenues, interest income properly recorded	Compliant	Compliant	Compliant
Verification that funds were expended with LACMTA's approval	Compliant	Compliant	Compliant
Verification that funds were not substituted for property tax and is compliant with assurance and understanding	Compliant	Compliant	Compliant
Timely submission of Expenditure Plan (Form One)	<b>Finding 17</b>	Compliant	Compliant
Timely submission of Expenditure Report (Form Two)	Compliant	Compliant	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditure did not exceed 20% of the total annual LR expenditures	Compliant	Compliant	Compliant
Approval obtained from LACMTA for fund exchange (trades, loans, or gifts)	Not applicable	Not applicable	Not applicable
Verification that funds expended and reimbursed by another fund, were properly credited to the LR account upon reimbursement	Not applicable	Not applicable	Not applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not applicable	Not applicable	Not applicable
Establishment of, and approval by LACMTA for, a reserve fund	Not applicable	Not applicable	Not applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not applicable	Not applicable	Not applicable
Where recreational Transit Services, Recreational Transit Form submitted timely.	Not applicable	Not applicable	Not applicable

**Los Angeles County Metropolitan Transit Authority**  
**Summary of Measure R Audit Results**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

Compliance Area Tested	San Gabriel	San Marino	Santa Clarita
Funds were expended for transportation purposes	Compliant	Compliant	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes.	Compliant	Compliant	Compliant
Evidence of signed and returned assurances and understanding agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR Purposes	Compliant	Compliant	Compliant
Verification of revenues received, including allocations, project generated revenues, interest income properly recorded	Compliant	Compliant	Compliant
Verification that funds were expended with LACMTA's approval	Compliant	Compliant	Compliant
Verification that funds were not substituted for property tax and is compliant with assurance and understanding	Compliant	Compliant	Compliant
Timely submission of Expenditure Plan (Form One)	Compliant	Compliant	Compliant
Timely submission of Expenditure Report (Form Two)	Compliant	Compliant	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditure did not exceed 20% of the total annual LR expenditures	Compliant	Compliant	Compliant
Approval obtained from LACMTA for fund exchange (trades, loans, or gifts)	Not applicable	Not applicable	Not applicable
Verification that funds expended and reimbursed by another fund, were properly credited to the LR account upon reimbursement	Not applicable	Not applicable	Not applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not applicable	Not applicable	Not applicable
Establishment of, and approval by LACMTA for, a reserve fund	Not applicable	Not applicable	Not applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not applicable	Not applicable	Not applicable
Where recreational Transit Services, Recreational Transit Form submitted timely.	Not applicable	Not applicable	Not applicable

**Los Angeles County Metropolitan Transit Authority**  
**Summary of Measure R Audit Results**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

Compliance Area Tested	Sierra Madre	Signal Hill	South Pasadena
Funds were expended for transportation purposes	Compliant	Compliant	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes.	Compliant	Compliant	Compliant
Evidence of signed and returned assurances and understanding agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR Purposes	Compliant	Compliant	Compliant
Verification of revenues received, including allocations, project generated revenues, interest income properly recorded	Compliant	Compliant	Compliant
Verification that funds were expended with LACMTA's approval	Compliant	<b>Finding 18</b>	Compliant
Verification that funds were not substituted for property tax and is compliant with assurance and understanding	Compliant	Compliant	Compliant
Timely submission of Expenditure Plan (Form One)	Compliant	<b>Finding 19</b>	Compliant
Timely submission of Expenditure Report (Form Two)	Compliant	Compliant	<b>Finding 20</b>
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditure did not exceed 20% of the total annual LR expenditures	Compliant	Compliant	Compliant
Approval obtained from LACMTA for fund exchange (trades, loans, or gifts)	Not applicable	Not applicable	Not applicable
Verification that funds expended and reimbursed by another fund, were properly credited to the LR account upon reimbursement	Not applicable	Not applicable	Not applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not applicable	Not applicable	Not applicable
Establishment of, and approval by LACMTA for, a reserve fund	Not applicable	Not applicable	Not applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not applicable	Not applicable	Not applicable
Where recreational Transit Services, Recreational Transit Form submitted timely.	Not applicable	Not applicable	Not applicable

**Los Angeles County Metropolitan Transit Authority**  
**Summary of Measure R Audit Results**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

Compliance Area Tested	Temple City	Torrance	West Covina
Funds were expended for transportation purposes	Not applicable	Not applicable	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes.	Not applicable	Not applicable	Compliant
Evidence of signed and returned assurances and understanding agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR Purposes	Compliant	Compliant	Compliant
Verification of revenues received, including allocations, project generated revenues, interest income properly recorded	Compliant	Compliant	Compliant
Verification that funds were expended with LACMTA's approval	Not applicable	Not applicable	Compliant
Verification that funds were not substituted for property tax and is compliant with assurance and understanding	Not applicable	Not applicable	Compliant
Timely submission of Expenditure Plan (Form One)	Not applicable	Not applicable	Compliant
Timely submission of Expenditure Report (Form Two)	Not applicable	Not applicable	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditure did not exceed 20% of the total annual LR expenditures	Not applicable	Not applicable	Compliant
Approval obtained from LACMTA for fund exchange (trades, loans, or gifts)	Not applicable	Not applicable	Not applicable
Verification that funds expended and reimbursed by another fund, were properly credited to the LR account upon reimbursement	Not applicable	Not applicable	Not applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not applicable	Not applicable	Not applicable
Establishment of, and approval by LACMTA for, a reserve fund	Not applicable	Not applicable	Not applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not applicable	Not applicable	Not applicable
Where recreational Transit Services, Recreational Transit Form submitted timely.	Not applicable	Not applicable	Not applicable

**Los Angeles County Metropolitan Transit Authority  
Summary of Measure R Audit Results  
Fiscal Year Ended June 30, 2011  
(Continued)**

Compliance Area Tested	Whittier
Funds were expended for transportation purposes	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes.	Compliant
Evidence of signed and returned assurances and understanding agreement	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR Purposes	Compliant
Verification of revenues received, including allocations, project generated revenues, interest income properly recorded	Compliant
Verification that funds were expended with LACMTA's approval	Compliant
Verification that funds were not substituted for property tax and is compliant with assurance and understanding	Compliant
Timely submission of Expenditure Plan (Form One)	Compliant
Timely submission of Expenditure Report (Form Two)	<b>Finding 21</b>
Timely use of funds	Compliant
Administrative expenditure did not exceed 20% of the total annual LR expenditures	Compliant
Approval obtained from LACMTA for fund exchange (trades, loans, or gifts)	Not applicable
Verification that funds expended and reimbursed by another fund, were properly credited to the LR account upon reimbursement	Not applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not applicable
Establishment of, and approval by LACMTA for, a reserve fund	Not applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not applicable
Where recreational Transit Services, Recreational Transit Form submitted timely.	Not applicable

**Los Angeles County Metropolitan Transit Authority  
Schedule of Findings and Questioned Costs  
Fiscal Year Ended June 30, 2011**

<b>Finding 1</b>	<b>City of Avalon</b>
Compliance Reference	Section B(VI) of the Measure R Local Return Program Guidelines states that "...Jurisdictions are required to establish a separate account, or sub-account (line item), and deposit all Measure R LR revenues, interest earnings received and other income earned (such as fare revenues, revenue from advertising, etc.) in that account...."
Condition	<p>The City pools all transportation funds under the Local Transportation Fund No. 122 and uses a manual spreadsheet to breakout the revenues and expenditures pertaining to each grant for financial reporting and audit purposes.</p> <p>The City did not have a separate Measure R Local Return Account to track all Measure R revenues and related income as required by the Guidelines. Since Measure R Local Return funds were combined with other transportation funds, the City did not comply with the Guideline.</p>
Cause	The City was not aware of the requirement to establish a separate account for Measure R Funds.
Effect	Measure R Funds were combined with other grants and therefore, the City did not comply with the Guideline.
Recommendation	We recommend that the City establish a separate account for Measure R to allow the accumulation of Measure R revenues and earnings in one account, and comply with the Guidelines.
Management Response	<p>City of Avalon staff attended an audit kick off meeting at Metro offices along with a number of other represented cities. At this meeting, questions were raised by the participants specifically asking if Metro would allow the utilization of separate spreadsheets identifying the funds. Metro advised this would be acceptable. However after going through the audit process, the City of Avalon clearly understands that this practice is unacceptable and that any and all Measure R funds received must be accounted for in a separate fund. Interest earnings and any other revenues received must also be accounted for in this separate fund.</p> <p>The City is currently in the process of implementing a new finance software. Retroactive to July 1, 2011, Measure R funds will be set up in a restricted fund utilizing separate cash accounts within the fund to allow for completely auditable records.</p>

**Los Angeles County Metropolitan Transit Authority  
 Schedule of Findings and Questioned Costs  
 Fiscal Year Ended June 30, 2011  
 (Continued)**

<b>Finding 2</b>	<b>City of Avalon</b>
Compliance Reference	<p>Section B(VI) of the Measure R Local Return Program Guidelines states that "...LACMTA will allow Jurisdiction's [sic] to pool Measure R LR funds in order to obtain maximum return on investments. Such investment earnings must be reported and expended consistent with these guidelines...."</p> <p>In addition, Section B(VI)(A) of the Guidelines states that "...Where Measure R funds were given, loaned or exchanged by one jurisdiction to another, verification that the receiving Jurisdiction has credited its LR account with the funds received...."</p>
Condition	<p>The City received \$500,000 of Measure R funds from the County of Los Angeles in exchange for the City's ARRA funds of \$500,000 in FY 2010. The County of Los Angeles made a similar exchange with the City of Bradbury during the same year.</p> <p>In the course of our audit of the City of Bradbury, we found that the City of Avalon received \$500,000 of Measure R funds from the County of Los Angeles in FY 2010. However, we found that the City of Avalon did not record the \$500,000 of Measure R funds received in FY 2010 in a Measure R Account. Therefore, the City did not comply with the Guideline.</p>
Cause	<p>The City has not established a separate account to record revenues and other funds received. In addition, the City does not appear to be aware of the requirement to record Measure funds received from fund exchanges in Measure R Local Return account.</p>
Effect	<p>Measure R Funds as of June 30, 2011 is understated by \$500,000. In addition, based on the average yield of investments by the City, we estimate the interest earned by the \$500,000 received in the fund exchange, to be \$663. See Note (a) on page 3 of the report.</p>
Recommendation	<p>We recommend that the City establish a separate Measure R Local Return account and transfer \$500,000 of Measure R funds to the Measure R Local Return Account along with interest earned by those funds.</p>
Avalon's Management Response	<p>The City of Avalon received two separate sources of Measure R revenue in Fiscal year 2010/2011.</p> <ol style="list-style-type: none"> <li>a. The City receives a monthly allocation for Measure R revenue which is the per capita revenue. This revenue is placed in a restricted Local Transportation Fund and expended monthly to run the City's local transportation</li> </ol>

**Los Angeles County Metropolitan Transit Authority  
Schedule of Findings and Questioned Costs  
Fiscal Year Ended June 30, 2011  
(Continued)**

<p>Avalon's Management Response (continued)</p>	<p>program. Therefore, no interest would accrue as the revenue is utilized the month it is received.</p> <p>b. The second source of Measure R revenue received by the City for fiscal year 2010/2011 was an ARRA fund swap with the Los Angeles County Public Works. This revenue was placed in the City's Infrastructure Fund as it was appropriated by the City Council for a capital improvement street project which was eligible under the Measure R guidelines. Due to the audit finding noted in the exit conference, the City added an agenda item to its regular Council meeting of December 20, 2011 authorizing the Finance Director to transfer the Measure R revenue out of the City Infrastructure Fund to the restricted Local Transportation Fund along with any accrued interest. This transfer will be completed on December 21, 2011 and will include accrued interest.</p>
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**Los Angeles County Metropolitan Transit Authority**  
**Schedule of Findings and Questioned Costs**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

<b>Finding 3</b>	<b>City of Bradbury</b>
Compliance Reference	Section B(VI) of the Measure R Local Return Program Guidelines states that "...LACMTA will allow Jurisdiction's [sic] to pool Measure R LR funds in order to obtain maximum return on investments. Such investment earnings must be reported and expended consistent with these guidelines...."
Condition	The City has not allocated appropriate share of interest earned by its Measure R Fund as of June 30, 2011. Therefore, the Form II submitted by the City to LACMTA did not include interest income earned by Measure R funds.
Cause	The City indicated that its outside auditor computes the allocation of interest income to the various funds.
Effect	Form II (Expenditure Report) submitted by the City for FY 2011 did not include the interest earned by Measure R funds for the year. The interest due to the Measure R Fund for FY 2011 is \$706. See Note (a) on page 3 of the report.
Recommendation	We recommend that the City calculate the interest in a timely manner so that the Form II submitted to LACMTA properly includes the interest earned by its Measure R Local Return funds.
Management Response	<p>The City of Bradbury is a very small city staff and as such many tasks are contracted out. Interest accrual during any FY is provided by an accounting firm after the close of the FY during the citywide auditing process. As that work is not yet complete for the prior year the interest journal entry has not yet been done but will be done at the close of the audit cycle.</p> <p>Staff will be recommending to the City Council that the future interest be calculated semi-annually in the future.</p>

**Los Angeles County Metropolitan Transit Authority  
 Schedule of Findings and Questioned Costs  
 Fiscal Year Ended June 30, 2011  
 (Continued)**

<b>Finding 4</b>	<b>City of Burbank</b>
Compliance Reference	Section VI of the Measure R Guideline provides that Jurisdictions are required to expend their Measure R Local Return funds for transportation purposes as defined by the Guidelines. LACMTA will provide LR funds to a capital project or program sponsor who submits the required expenditure plan [Section B(II)(1)].
Condition	The salaries and benefits totaling \$256,982 under Project 1.05 Street Rehab and Design were based on percentages determined by the City departments to be attributable to the Metro project. However, the percentages utilized cannot be supported by timesheets or similar time and effort documentation to demonstrate that the salaries charged were expended on approved Measure R Local Return projects.
Cause	The City is unaware that its current practice of allocating labor costs to projects is not adequate to support salaries claimed.
Effect	The salaries and benefits claimed of \$256,982 under a Measure R funded project may include expenditures which may not be an allowable Measure R expenditure.
Recommendation	In accordance with the Guidelines, the City should be required to reimburse its Measure R LR Account for \$256,982. In addition, we recommend that the City revise its current labor reporting procedures to ensure that labor costs charged to Metro projects are adequately supported by timesheets or similar documentation.
Management Response	<p>The City of Burbank has chosen to utilize city forces (rather than contracted services) to implement the engineering, administration, and maintenance of street and road repair projects (pothole repair, street repair, rehab, and reconstruction). These activities are an allowable expenditure under Measure R code 1.05 (M.R. L.R. Guidelines Section II). The Measure R Local Return guidelines require local agencies “maintain proper accounting records and documentation” to support expenditures on local return programs (M.R. L.R. Guidelines Section VII). However, the guidelines do not provide guidance on the specific method requested by Metro to document City labor utilized to implement Measure R projects.</p> <p>The City’s current method to allocate certain labor charges to Local Return based on the proportion of that labor dedicated to implementing Local Return projects has been an accepted accounting practice by Metro for several years. In discussions regarding your recommended audit finding, it has been suggested</p>

**Los Angeles County Metropolitan Transit Authority  
 Schedule of Findings and Questioned Costs  
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 (Continued)**

<p>Burbank's Management Response (continued)</p>	<p>that detailed timesheets or other hour-by-hour billable recordkeeping is required to prove that city labor funded by Local Return is being used to support Local Return projects.</p> <p>While this would create an unprecedented new level of administrative overhead on day-to-day operations, the City is happy to work with Metro to implement an acceptable process that will demonstrate to Metro that labor costs charged to Local Return funds are implementing eligible projects. The City believes that the appropriate audit recommendation is for the City, upon consultation with Metro, to implement a reasonable documentation process that will satisfy Metro's interpretation of "proper accounting records and documentation" related to City labor charges for Local Return projects. The City feels this is a more appropriate audit finding because there has been no previous policy or administrative direction from Metro that prior practices related to documentation of labor paid by Local Return funds are no longer sufficient.</p>
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**Los Angeles County Metropolitan Transit Authority**  
**Schedule of Findings and Questioned Costs**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

<b>Finding 5</b>	<b>City of Cerritos</b>
Compliance Reference	<p>Section B(II)(1) of the Measure R Local Return Program Guidelines states that "...LACMTA will provide LR funds to a capital project or program sponsor who submits the required expenditure plan containing the following: 1. The estimated total cost for each project and/or program activity ...."</p> <p>To maintain legal eligibility and meet Measure R LR program compliance requirements, Jurisdictions shall submit to LACMTA an Expenditure Plan (Form One), annually, by August 1 of each year.</p>
Condition	<p>The City claimed expenditures for Annual Street Maintenance project totaling \$435,687 where it had no prior approval from LACMTA. The City had an approval for Del Amo Blvd Pavement Reconstruction (Project 01-002) but not for street maintenance work for other locations. Although we found the expenditures to be eligible for Measure R LR funding, we questioned the expenditures claimed under that project because it had no prior approval from Metro.</p>
Cause	<p>The City thought that the approval it received in September 2011 from LACMTA to proceed with the annual street maintenance work was sufficient.</p>
Effect	<p>The City claimed for expenditures totaling \$435,687 where it had no approval from LACMTA which is in violation of the Guidelines.</p>
Recommendation	<p>In accordance with the Guidelines, the City should be required to reimburse its Measure R LR Account for \$435,687. In addition, we recommend that the City ensure that it obtain approval from LACMTA prior to implementing any Measure R-funded project.</p>
Management Response	<p>City of Cerritos staff corresponded with LACMTA Program Manager via e-mail regarding the change in use of Measure R funds from the Del Amo Blvd Pavement Reconstruction project to the annual street maintenance expenditures. It was communicated to the City of Cerritos that the Measure R funds could be utilized for expenditures for the annual street maintenance. E-mail messages providing documentation of this approval were provided to KNL Support Services during their audit field work.</p> <p>The City of Cerritos believes that this is sufficient documentation and approval for the expenditure of Measure R funds for annual street maintenance. We believe that Measure R monies were utilized for appropriate expenditures.</p>

**Los Angeles County Metropolitan Transit Authority**  
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**(Continued)**

Auditor's Rejoinder (Cerritos, continued)	We found the expenditures incurred on the project to be eligible for Measure R funding. However, the City received approval from LACMTA in September 2011 after the fiscal year when the expenditures were already incurred.
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**Los Angeles County Metropolitan Transit Authority  
Schedule of Findings and Questioned Costs  
Fiscal Year Ended June 30, 2011  
(Continued)**

<b>Finding 6</b>	<b>City of Claremont</b>
Compliance Reference	Section B(II)(1) of the Measure R Local Return Program Guidelines states that "...To maintain legal eligibility and meet Measure R LR program compliance requirements, Jurisdictions shall submit to LACMTA an Expenditure Plan (Form One), annually, by August 1 of each year...."
Condition	The City submitted its Form One on August 4 which is beyond the due date set under the Guideline.
Cause	The City lacks adequate procedures to ensure that Form One is filed on time.
Effect	Form One was not submitted timely as required by the Guidelines.
Recommendation	We recommend that the City submits its Form One by August 1 as required by the Guidelines.
Management Response	We corrected the problem in FY12 and submitted our Form One on time.

**Los Angeles County Metropolitan Transit Authority  
Schedule of Findings and Questioned Costs  
Fiscal Year Ended June 30, 2011  
(Continued)**

<b>Finding 7</b>	<b>City of Diamond Bar</b>
Compliance Reference	<p>Section B(II)(1) of the Measure R Local Return Program Guidelines states that "...LACMTA will provide LR funds to a capital project or program sponsor who submits the required expenditure plan containing the following: 1. The estimated total cost for each project and/or program activity ...."</p> <p>To maintain legal eligibility and meet Measure R LR program compliance requirements, Jurisdictions shall submit to LACMTA an Expenditure Plan (Form One), annually, by August 1 of each year.</p>
Condition	<p>The City claimed expenditures in FY 2011 totaling \$63,750 for a project named "Landscape Design for SR-60/Lemon Avenue." This project was completed in FY 2010 but the expenditures were only charged to the Measure R fund in FY 2011. Although we found the expenditure to be eligible for Measure R LR funding, the City had no approval from LACMTA to work on the project in either FY 2010 or FY 2011. The project was approved as a new project on August 30, 2011 and in December 2011, the City obtained retroactive approval from Metro on the aforementioned project.</p>
Cause	<p>The City does not appear to have adequate procedures to ensure that approvals are obtained timely from Metro prior to implementing a Measure R-funded project.</p>
Effect	<p>The City claimed for expenditures totaling \$63,750 which had no prior approval from LACMTA in violation of the Guidelines.</p>
Recommendation	<p>In accordance with the Guidelines, the City should be required to reimburse its Measure R LR Account for \$63,750. In addition, we recommend that the city ensure that it obtain approval from Metro prior to implementing any Measure R-funded projects. Finally, we recommend that Metro's Program Manager seek approval from the Board for any retroactive approvals granted to jurisdictions.</p>
Management Response	<p>The project entitled "Landscape Design for SR-60/Lemon Avenue" had approval from Metro during fiscal year 2009-10. The error was discovered during fiscal year 2010-11 so in order to account for the funds correctly, the funds were transferred in fiscal year 2010-11 and reflected as a prior period adjustment in the financial statements.</p>
Auditor's Rejoinder	<p>Based on the Approved Project Notification form of LACMTA, the Landscape Design for SR60/Lemon Avenue project was first approved by LACMTA on August 30, 2011 for \$63,750. As</p>

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 Schedule of Findings and Questioned Costs  
 Fiscal Year Ended June 30, 2011  
 (Continued)**

Auditor's Rejoinder (Diamond Bar, continued)	mentioned earlier, LACMTA granted retroactive approval of this project to FY 2010.
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**Los Angeles County Metropolitan Transit Authority  
 Schedule of Findings and Questioned Costs  
 Fiscal Year Ended June 30, 2011  
 (Continued)**

<b>Finding 8</b>	<b>City of Downey</b>
Compliance Reference	Section A(II)(8) of the Measure R Local Return Guideline states that "...The administrative expenditures for any year shall not exceed twenty percent (20%) of the total annual LR expenditures...."
Condition	Administrative expenditures claimed by the City represent about 33% of the total Measure R LR expenditures, which exceeded the 20% cap.
Cause	The City lacks adequate controls to ensure that its administrative expenditures did not exceed the cap under the Guidelines.
Effect	We questioned \$14,779 of administrative expenditures claimed representing the administrative expenditures that were in excess of the 20% cap set by the Guidelines.
Recommendation	In accordance with the Guidelines, the City should be required to reimburse its Measure R LR Account for \$14,779. In addition, we recommend that the City ensure that administrative expenditures claimed are within the 20% cap.
Management Response	The excess of administrative expenses should have been categorized under different project codes, for example, planning/engineering (\$7,928.76) and community based transit planning grant (\$6,849.99). Metro has granted a waiver to the city for this excess.

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 Schedule of Findings and Questioned Costs  
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 (Continued)**

<b>Finding 9</b>	<b>City of Hawaiian Gardens</b>
Compliance Reference	Section B(VI) of the Measure R Local Return Program Guidelines states that "...Jurisdictions are required to establish a separate account, or sub-account (line item), and deposit all Measure R LR revenues, interest earnings received and other income earned (such as fare revenues, revenue from advertising, etc.) in that account...."
Condition	The City's Measure R LR revenues and earnings for FY 2011 are combined with other grants in the City's State Gas Tax Fund No. 02.
Cause	The City was not aware of the requirement to establish a separate account for Measure R Funds.
Effect	Measure R Funds are combined with other grants and the City did not comply with the Guidelines.
Recommendation	We recommend that the City establish a separate account for Measure R to allow the accumulation of Measure R revenues and earnings in one account, and comply with the Guidelines.
Management Response	<p>The City was not aware of the requirement to establish a separate account for Measure R Funds for the prior fiscal years.</p> <p>Beginning Fiscal year 2012 the City established a Measure R fund.</p>

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 Schedule of Findings and Questioned Costs  
 Fiscal Year Ended June 30, 2011  
 (Continued)**

<b>Finding 10</b>	<b>City of Hawaiian Gardens</b>
Compliance Reference	<p>Section B(II)(1) of the Measure R Local Return Program Guidelines states that "...LACMTA will provide LR funds to a capital project or program sponsor who submits the required expenditure plan containing the following: 1. The estimated total cost for each project and/or program activity ...."</p> <p>To maintain legal eligibility and meet Measure R LR program compliance requirements, Jurisdictions shall submit to LACMTA an Expenditure Plan (Form One), annually, by August 1 of each year.</p>
Condition	<p>The City claimed expenditures for street overlay projects totaling \$125,928. Although we found the expenditures claimed to be eligible for Measure R funding, we found that the said project had no prior approval from Metro.</p> <p>However, during our audit, the City obtained retroactive approval from LACMTA on the said project.</p>
Cause	<p>The City does not have adequate procedures in place to ensure that Measure R LR projects are approved by LACMTA before implementing the project.</p>
Effect	<p>The City claimed for expenditures totaling \$125,928 where it had no approval from LACMTA and in violation of the Guidelines.</p>
Recommendation	<p>In accordance with the Guidelines, the City should be required to reimburse its Measure R LR Account for \$125,928. In addition, we recommend that the city ensure that it obtain approval from Metro prior to implementing any Measure R-funded projects. Finally, we recommend that LACMTA's Program Manager seek approval from the Board for any retroactive approvals granted to jurisdictions.</p>
Management Response	<p>The City did not receive approval to spend Measure R revenue but used it to pay for a street overlay project. Additionally the City does not recall receiving any forms to fill out for approval.</p> <p>The City contacted LACMTA's Program Manager requesting a waiver of the audit findings and was granted the waiver. Provided below are the comments:  <i>"Metro has an approval for the FY10 Budget which may have been incorrectly attributed to FY09 (but there were no MR funds given in FY09). The FY11 Budget listing showed no expenditures planned for FY11."</i></p>

**Los Angeles County Metropolitan Transit Authority  
 Schedule of Findings and Questioned Costs  
 Fiscal Year Ended June 30, 2011  
 (Continued)**

Hawaiian Garden's Management Response (continued)	Since this could have been a technical error, LACMTA will grant a waiver to any return of funds expended on the resurfacing project(s).
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**Los Angeles County Metropolitan Transit Authority  
 Schedule of Findings and Questioned Costs  
 Fiscal Year Ended June 30, 2011  
 (Continued)**

<b>Finding 11</b>	<b>City of La Habra Heights</b>
Compliance Reference	Section B(II)(1) of the Measure R Local Return Program Guidelines states that "...To maintain legal eligibility and meet Measure R LR program compliance requirements, Jurisdictions shall submit to LACMTA an Expenditure Plan (Form One), annually, by August 1 of each year...."
Condition	The City submitted its Form One on August 18 which is beyond the due date set under the Guideline.
Cause	The City lacks adequate procedures to ensure that Form One is filed on time.
Effect	Form One was not submitted timely.
Recommendation	We recommend that the City submits its Form One by August 1 as required by the Guidelines.
Management Response	The City will place this due date on its Finance calendar.

**Los Angeles County Metropolitan Transit Authority**  
**Schedule of Findings and Questioned Costs**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

<b>Finding 12</b>	<b>City of La Mirada</b>
Compliance Reference	Section B(VI) of the Measure R Local Return Program Guidelines states that "...Jurisdictions are required to establish a separate account, or sub-account (line item), and deposit all Measure R LR revenues, interest earnings received and other income earned (such as fare revenues, revenue from advertising, etc.) in that account...."
Condition	The City's Measure R LR revenues and earnings for FY 2011 are combined with other grants in the City's Transit Fund 204.
Cause	The City was not aware of the requirement to establish a separate account for Measure R Funds.
Effect	Measure R Funds are combined with other grants and the City did not comply with the Guidelines.
Recommendation	We recommend that the City establish a separate account for Measure R to allow the accumulation of Measure R revenues and earnings in one account, and comply with the Guidelines.
Management Response	The City of La Mirada interpreted the guidelines as only having to create a separate line-item account, not a fund, for all Measure R activity. For the past few years, this practice has been followed. Beginning in FY 2011-12, the City will record Measure R revenues, interest earnings and expenditures in a new, separate fund (Fund 207).

**Los Angeles County Metropolitan Transit Authority**  
**Schedule of Findings and Questioned Costs**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

<b>Finding 13</b>	<b>City of La Mirada</b>
Compliance Reference	Section B(VI) of the Measure R Local Return Program Guidelines states that "...LACMTA will allow Jurisdiction's [sic] to pool Measure R LR funds in order to obtain maximum return on investments. Such investment earnings must be reported and expended consistent with these guidelines...."
Condition	The City has not allocated appropriate share of interest earned by its Measure R Fund as of June 30, 2011. Therefore, the Form II submitted by the City to LACMTA did not include interest income earned by Measure R funds.
Cause	The City did not have a separate Measure R Fund, as discussed in the previous finding, where interest income can be allocated.
Effect	Form II submitted by the City for FY 2011 did not report interest income earned by Measure R funds. Based on the average yield of investments by the City, we estimate the interest due to the Measure R Fund for FY 2011 to be \$9,264. See Note (a) on page 3 of the report.
Recommendation	We recommend that the City establish a separate Measure R Fund as required by the Guidelines and transfer the interest income due to the Measure R Local Return account.
Management Response	Beginning in FY 2011-12, the City of La Mirada will record Measure R revenues, interest earnings and expenditures in a new, separate fund (Fund 207).

**Los Angeles County Metropolitan Transit Authority  
 Schedule of Findings and Questioned Costs  
 Fiscal Year Ended June 30, 2011  
 (Continued)**

<b>Finding 14</b>	<b>City of La Verne</b>
Compliance Reference	<p>Section B(II)(1) of the Measure R Local Return Program Guidelines states that "...LACMTA will provide LR funds to a capital project or program sponsor who submits the required expenditure plan containing the following: 1. The estimated total cost for each project and/or program activity ...."</p> <p>To maintain legal eligibility and meet Measure R LR program compliance requirements, Jurisdictions shall submit to LACMTA an Expenditure Plan (Form One), annually, by August 1 of each year.</p>
Condition	<p>The City claimed expenditures for Project 01-004 Nashport et al Street Resurfacing project totaling \$194,131 in FY 2011. Although we found the expenditures to be eligible for Measure R funding, we found that the said project had no prior approval from LACMTA.</p>
Cause	<p>The City does not have adequate procedures in place to ensure that Measure R LR projects are approved by LACMTA before implementing the project.</p>
Effect	<p>The City claimed for expenditures totaling \$194,131 where it had no approval from LACMTA and in violation of the Guidelines.</p>
Recommendation	<p>In accordance with the Guidelines, the City should be required to reimburse its Measure R LR Account for \$194,131. In addition, we recommend that the city ensure that it obtain approval from Metro prior to implementing any Measure R-funded projects.</p>
Management Response	<p>All of the projects shown on the approved Measure R list (dated July 28, 2010) were completed during FY 2010/11 (with Orangewood awarded and authorized under PO during FY 2009/10). In addition, overall bid awards were favorable and well under budgeted amounts. Staff also bundled the Damien and Palomares jobs for efficiency and to improve overall contract pricing. Palomares was approved for \$55,000 in Measure R funding, but only represented about 1/4 of the street work to be completed. As no records were kept distinguishing the Palomares Measure R approved work from the Palomares non Measure R work, staff determined that no Measure R money would be directed at the project. This balance, as well as the \$140,000 believed available as duplicate programming for Orangewood, was then directed at our next Measure R project - Nashport et al. Staff has since provided Metro with documentation (10/10/11) noting the actual Measure R costs of the Nashport et al project (\$194,131).</p>



**Los Angeles County Metropolitan Transit Authority  
 Schedule of Findings and Questioned Costs  
 Fiscal Year Ended June 30, 2011  
 (Continued)**

<b>Finding 15</b>	<b>City of Redondo Beach</b>
Compliance Reference	Section B(VI) of the Measure R Local Return Program Guidelines states that "...LACMTA will allow Jurisdiction's [sic] to pool Measure R LR funds in order to obtain maximum return on investments. Such investment earnings must be reported and expended consistent with these guidelines...."
Condition	The City has not allocated appropriate share of interest earned by its Measure R Fund as of June 30, 2011. Therefore, the Form II submitted by the City to LACMTA did not include interest income earned by Measure R funds.
Cause	There does not appear to be adequate controls to ensure that funds included in pooled investments get their share of interest earnings.
Effect	Form II submitted by the City for FY 2011 did not report interest income earned by Measure R funds. Based on the average yield of investments by the City, we estimate the interest due to the Measure R Fund for FY 2011 to be \$7,737. See Note (a) on page 3 of the report.
Recommendation	We recommend that the City comply with the Guidelines and transfer the interest earnings earned by the Measure R funds to the Measure R LR Fund.
Management Response	The City was unaware of the accrued interest requirement which was brought to our attention this fiscal year. The City will make the proper measures to ensure they will be in compliance in the future.

**Los Angeles County Metropolitan Transit Authority  
Schedule of Findings and Questioned Costs  
Fiscal Year Ended June 30, 2011  
(Continued)**

<b>Finding 16</b>	<b>City of Redondo Beach</b>
Compliance Reference	Section B(II)(1) of the Measure R Local Return Program Guidelines states that "...To maintain legal eligibility and meet Measure R LR program compliance requirements, Jurisdictions shall submit to LACMTA an Expenditure Plan (Form One), annually, by August 1 of each year...."
Condition	The City submitted its Form One on November 14 which is beyond the due date set under the Guideline.
Cause	The City lacks adequate procedures to ensure that Form One is filed on time.
Effect	Form One was not submitted timely.
Recommendation	We recommend that the City submits its Form One by August 1 as required by the Guidelines and submit an amended Form One afterwards as necessary.
Management Response	The MR Form One was not submitted by August 1, 2010, because the City did not have a project identified or approved at that time. The City Council Administrative Report and fund allocation was approved in late September 2010; therefore, it was submitted after that date.

**Los Angeles County Metropolitan Transit Authority  
 Schedule of Findings and Questioned Costs  
 Fiscal Year Ended June 30, 2011  
 (Continued)**

<b>Finding 17</b>	<b>City of Rolling Hills</b>
Compliance Reference	Section B(II)(1) of the Measure R Local Return Program Guidelines states that "...To maintain legal eligibility and meet Measure R LR program compliance requirements, Jurisdictions shall submit to LACMTA an Expenditure Plan (Form One), annually, by August 1 of each year...."
Condition	The City submitted its Form One on September 16 which is beyond the due date set under the Guideline.
Cause	The City lacks adequate procedures to ensure that Form One is filed on time.
Effect	Form One was not submitted timely.
Recommendation	We recommend that the City submits its Form One by August 1 as required by the Guidelines.
Management Response	In FY 10/11 the City of Rolling Hills gifted the Measure R monies for the first time. The gifting process took longer to determine how the monies were to be allocated amongst three different agencies and have City Council approval than if we were going to spend the monies on our own City project. In the future, we will start the gifting process earlier to comply with the August 1 <sup>st</sup> deadline.

**Los Angeles County Metropolitan Transit Authority  
 Schedule of Findings and Questioned Costs  
 Fiscal Year Ended June 30, 2011  
 (Continued)**

<b>Finding 18</b>	<b>City of Signal Hill</b>
Compliance Reference	Section B(II)(1) of the Measure R Local Return Program Guidelines states that "...LACMTA will provide LR funds to a capital project or program sponsor who submits the required expenditure plan containing the following: 1. The estimated total cost for each project and/or program activity ...."  To maintain legal eligibility and meet Measure R LR program compliance requirements, Jurisdictions shall submit to LACMTA an Expenditure Plan (Form One), annually, by August 1 of each year.
Condition	The City claimed expenditures for a project named: Assessment for Sub-regional Sustainable Communities Strategy totaling \$8,759. Although we found the expenditures to be eligible for Measure R funding, the said project had no prior approval from LACMTA.
Cause	The City does not have adequate procedures in place to ensure that Measure R LR projects are approved by LACMTA before implementing the project.
Effect	The City claimed for expenditures totaling \$8,759 where it had no approval from LACMTA and in violation of the Guidelines.
Recommendation	In accordance with the Guidelines, the City should be required to reimburse its Measure R LR Account for \$8,759. In addition, we recommend that the city ensure that it obtain approval from Metro prior to implementing any Measure R-funded project.
Management Response	The City agrees with the finding.

**Los Angeles County Metropolitan Transit Authority  
Schedule of Findings and Questioned Costs  
Fiscal Year Ended June 30, 2011  
(Continued)**

<b>Finding 19</b>	<b>City of Signal Hill</b>
Compliance Reference	Section B(II)(1) of the Measure R Local Return Program Guidelines states that "...To maintain legal eligibility and meet Measure R LR program compliance requirements, Jurisdictions shall submit to LACMTA an Expenditure Plan (Form One), annually, by August 1 of each year...."
Condition	The City submitted its Form One on August 9 which is beyond the due date set under the Guideline.
Cause	The City lacks adequate procedures to ensure that Form One is filed on time.
Effect	Form One was not submitted timely.
Recommendation	We recommend that the City submits its Form One by August 1 as required by the Guidelines.
Management Response	The City agrees with the finding.

**Los Angeles County Metropolitan Transit Authority**  
**Schedule of Findings and Questioned Costs**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

<b>Finding 20</b>	<b>City of South Pasadena</b>
Compliance Reference	Section B(II)(2) of the Measure R Local Return Program Guidelines states that "...Jurisdictions shall submit a Form II, to LACMTA annually, by October 15 <sup>th</sup> (following the conclusion of the fiscal year)...."
Condition	The City submitted its Form II on October 31 which is beyond the due date set under the Guideline.
Cause	The City lacks adequate procedures to ensure that Form II is filed on time.
Effect	Form II was not submitted timely.
Recommendation	We recommend that the City submits its Form II by October 15 as required by the Guidelines.
Management Response	The City acknowledges that the Form II was submitted late, and will correct the oversight for future submissions.

**Los Angeles County Metropolitan Transit Authority  
 Schedule of Findings and Questioned Costs  
 Fiscal Year Ended June 30, 2011  
 (Continued)**

<b>Finding 21</b>	<b>City of Whittier</b>
Compliance Reference	Section B(II)(2) of the Measure R Local Return Program Guidelines states that "...Jurisdictions shall submit a Form II, to LACMTA annually, by October 15 <sup>th</sup> (following the conclusion of the fiscal year)...."
Condition	The City did not submit a Form II to LACMTA.
Cause	The City lacks adequate procedures to ensure submission of Form II to LACMTA.
Effect	The City did not comply with the Guidelines relating to submission of Form II.
Recommendation	We recommend that the City comply with the Guideline and submit a Form II to LACMTA.
Management Response	The City acknowledges that the Form II was not submitted to Metro.

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO MEASURE R ORDINANCE AND  
MEASURE R LOCAL RETURN GUIDELINES**

**TO THE LOS ANGELES COUNTY  
METROPOLITAN TRANSPORTATION AUTHORITY**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO MEASURE R ORDINANCE AND  
MEASURE R LOCAL RETURN GUIDELINES

To: Board of Directors of the Los Angeles County Metropolitan Transportation Authority and  
Measure R Oversight Committee

**Compliance**

We have audited the compliance of the Cities and the County identified in Schedule 1, with the types of compliance requirements described in the Measure R Ordinance enacted through a Los Angeles County voter approved law in November 2008; Measure R Local Return Guidelines, issued by the Los Angeles County Metropolitan Transportation Authority (LACMTA), approved by its Board of Directors on October 22, 2009 (Guidelines); and the respective Assurances and Understandings Regarding Receipt and Use of Measure R Local Return Funds, executed by LACMTA and the respective Cities and the County for the year ended June 30, 2011 (Requirements). Compliance with the above noted Requirements by the Cities and the County are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the Requirements is the responsibility of the respective Cities' and the County's management. Our responsibility is to express an opinion on the Cities' and the County's compliance based on our audit.

We conducted our audits of compliance in accordance with the Guidelines, auditing standards generally accepted in the United States of America, and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether noncompliance with the types of requirements referred to above could have a direct and material effect on the Measure R Local Return program occurred. An audit includes examining, on a test basis, evidence about each City's and the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions. Our audits do not provide a legal determination of each City's or the County's compliance with those requirements.

As described in Findings Number 4 and 9 in the accompanying Schedule of Findings and Questioned Costs, the Cities of Compton and Maywood did not comply with requirements as stipulated in the Assurances and Understandings regarding the use of Measure R Local Return Funds that are applicable to their Measure R Local Return Programs. Compliance with such requirements is necessary, in our opinion, for the Cities of Compton and Maywood to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Cities and the County complied, in all material respects, with the requirements referred to above that are applicable to the Measure R Local Return program for the year ended June 30, 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with the Guidelines and which are described in the accompanying Summary of Compliance Findings, Schedule 1 and Schedule 2 as Finding Numbers 1 through 3, 5 through 8, and 10 through 18.



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### Internal Control Over Compliance

The management of each City and the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal, state, and local programs. In planning and performing our audits, we considered each City's and the County's internal control over compliance with the requirements that could have a direct and material effect on the Measure R Local Return program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Requirements, 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 Cities' and the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance under the Requirements 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 Requirements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items Findings Number 4 and 9 to be material weaknesses.

Responses by the Cities and the County to the findings identified in our audits are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit each City's and the County's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the LACMTA, the management, the City Councils, and others within each City and the County and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read 'Stimpson' followed by a flourish.

Los Angeles, California  
December 15, 2011

### Summary of Compliance Findings

The audit of the 38 Cities and the County of Los Angeles has resulted in 18 findings. The table below shows a summary of the findings:

Finding	# of Findings	Responsible Cities/ Finding Reference	Questioned Costs
No adequate evidence that funds were expended for transportation purposes	7	Cudahy (#5), Pomona (#11 and #12), Rosemead (#13 and #14), South El Monte (#15 and #16)	\$ 171,726
Separate Measure R Local Return Account was not established	1	Westlake Village (#18)	0
Revenues received, including allocations and interest income were not properly recorded in Measure R Local Return Account	1	Maywood (#10)	1,571
Funds were expended without LACMTA's approval	4	Baldwin Park (#1), Bell Gardens (#3), El Monte (#7), South Gate (#17)	302,865
Funds were used for non-Measure R Local Return programs	2	Compton (#4), Maywood (#9)	1,449,948
Form One (Expenditure Plan) was not submitted timely	1	Baldwin Park (#2)	0
Form Two (Expenditure Report) was not submitted timely	2	Cudahy (#6), County of Los Angeles (#8)	0
<b>Total Findings and Questioned Cost</b>	<b>18</b>		<b>\$1,926,110</b>

Details of the findings can be found in Schedule 2.

**Los Angeles County Metropolitan Transportation Authority  
Summary of Measure R Audit Results  
For the Fiscal Year Ended June 30, 2011**

SCHEDULE 1

Compliance Area Tested	Agoura Hills	Azusa	Baldwin Park
Funds were expended for transportation purposes	Compliant	Compliant	Compliant
Fund were used to augment, not supplant, existing local revenues being used for transportation purposes	Compliant	Compliant	Compliant
Evidence of signed and returned Assurances and Understandings agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR purposes	Compliant	Compliant	Compliant
Verification of revenues received, including allocations, project generated revenues, and interest income were properly credited to Measure R account	Compliant	Compliant	Compliant
Verification that funds were expended with LACMTA's approval	Compliant	Compliant	<b>Finding-#1</b>
Verification that funds were not substituted for property tax and is compliant with Assurances and Understandings	Compliant	Compliant	Compliant
Timely submission of Expenditure Plan (Form One)	Compliant	Compliant	<b>Finding-#2</b>
Timely submission of Expenditure Report (Form Two)	Compliant	Compliant	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditures did not exceed 20% of the total annual LR expenditures	Compliant	Compliant	Compliant
Approval obtained from LACMTA for fund exchange (Trade, Loans, or Gifts)	Not Applicable	Not Applicable	Not Applicable
Verification that funds expended and reimbursed by another fund were properly credited to the LR account upon reimbursement	Not Applicable	Not Applicable	Not Applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not Applicable	Not Applicable	Not Applicable
Establishment of and approval by LACMTA for a reserve fund	Not Applicable	Not Applicable	Not Applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not Applicable	Not Applicable	Not Applicable
Recreational Transit Form was submitted timely for the recreational transit services	Not Applicable	Not Applicable	Not Applicable

**Los Angeles County Metropolitan Transportation Authority**  
**Summary of Measure R Audit Results**  
**For the Fiscal Year Ended June 30, 2011**  
**(Continued)**

SCHEDULE 1

<b>Compliance Area Tested</b>	<b>Bell</b>	<b>Bell Gardens</b>	<b>Beverly Hills</b>
Funds were expended for transportation purposes	Compliant	Compliant	Compliant
Fund were used to augment, not supplant, existing local revenues being used for transportation purposes	Compliant	Compliant	Compliant
Evidence of signed and returned Assurances and Understandings agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR purposes	Compliant	Compliant	Compliant
Verification of revenues received, including allocations, project generated revenues, and interest income were properly credited to Measure R account	Compliant	Compliant	Compliant
Verification that funds were expended with LACMTA's approval	Compliant	<b>Finding-#3</b>	Compliant
Verification that funds were not substituted for property tax and is compliant with Assurances and Understandings	Compliant	Compliant	Compliant
Timely submission of Expenditure Plan (Form One)	Compliant	Compliant	Compliant
Timely submission of Expenditure Report (Form Two)	Compliant	Compliant	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditures did not exceed 20% of the total annual LR expenditures	Compliant	Compliant	Compliant
Approval obtained from LACMTA for fund exchange (Trade, Loans, or Gifts)	Not Applicable	Not Applicable	Not Applicable
Verification that funds expended and reimbursed by another fund were properly credited to the LR account upon reimbursement	Not Applicable	Not Applicable	Not Applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not Applicable	Not Applicable	Not Applicable
Establishment of and approval by LACMTA for a reserve fund	Not Applicable	Not Applicable	Not Applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not Applicable	Not Applicable	Not Applicable
Recreational Transit Form was submitted timely for the recreational transit services	Not Applicable	Not Applicable	Not Applicable

**Los Angeles County Metropolitan Transportation Authority**  
**Summary of Measure R Audit Results**  
**For the Fiscal Year Ended June 30, 2011**  
**(Continued)**

SCHEDULE 1

<b>Compliance Area Tested</b>	<b>Calabasas</b>	<b>Carson</b>	<b>Commerce</b>
Funds were expended for transportation purposes	Compliant	Compliant	Compliant
Fund were used to augment, not supplant, existing local revenues being used for transportation purposes	Compliant	Compliant	Compliant
Evidence of signed and returned Assurances and Understandings agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR purposes	Compliant	Compliant	Compliant
Verification of revenues received, including allocations, project generated revenues, and interest income were properly credited to Measure R account	Compliant	Compliant	Compliant
Verification that funds were expended with LACMTA's approval	Compliant	Compliant	Compliant
Verification that funds were not substituted for property tax and is compliant with Assurances and Understandings	Compliant	Compliant	Compliant
Timely submission of Expenditure Plan (Form One)	Compliant	Compliant	Compliant
Timely submission of Expenditure Report (Form Two)	Compliant	Compliant	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditures did not exceed 20% of the total annual LR expenditures	Compliant	Compliant	Compliant
Approval obtained from LACMTA for fund exchange (Trade, Loans, or Gifts)	Not Applicable	Not Applicable	Not Applicable
Verification that funds expended and reimbursed by another fund were properly credited to the LR account upon reimbursement	Not Applicable	Not Applicable	Not Applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not Applicable	Not Applicable	Not Applicable
Establishment of and approval by LACMTA for a reserve fund	Not Applicable	Not Applicable	Not Applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not Applicable	Not Applicable	Not Applicable
Recreational Transit Form was submitted timely for the recreational transit services	Not Applicable	Not Applicable	Not Applicable

**Los Angeles County Metropolitan Transportation Authority**  
**Summary of Measure R Audit Results**  
**For the Fiscal Year Ended June 30, 2011**  
**(Continued)**

SCHEDULE 1

<b>Compliance Area Tested</b>	<b>Compton</b>	<b>Cudahy</b>	<b>Culver City</b>
Funds were expended for transportation purposes	Compliant	<b>Finding-#5</b>	Compliant
Fund were used to augment, not supplant, existing local revenues being used for transportation purposes	Compliant	Compliant	Compliant
Evidence of signed and returned Assurances and Understandings agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR purposes	Compliant	Compliant	Compliant
Verification of revenues received, including allocations, project generated revenues, and interest income were properly credited to Measure R account	Compliant	Compliant	Compliant
Verification that funds were expended with LACMTA's approval	Compliant	Compliant	Compliant
Verification that funds were not substituted for property tax and is compliant with Assurances and Understandings	<b>Finding-#4</b>	Compliant	Compliant
Timely submission of Expenditure Plan (Form One)	Compliant	Compliant	Compliant
Timely submission of Expenditure Report (Form Two)	Compliant	<b>Finding-#6</b>	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditures did not exceed 20% of the total annual LR expenditures	Compliant	Compliant	Compliant
Approval obtained from LACMTA for fund exchange (Trade, Loans, or Gifts)	Not Applicable	Not Applicable	Not Applicable
Verification that funds expended and reimbursed by another fund were properly credited to the LR account upon reimbursement	Not Applicable	Not Applicable	Not Applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not Applicable	Not Applicable	Not Applicable
Establishment of and approval by LACMTA for a reserve fund	Not Applicable	Not Applicable	Not Applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not Applicable	Not Applicable	Not Applicable
Recreational Transit Form was submitted timely for the recreational transit services	Not Applicable	Not Applicable	Not Applicable



**Los Angeles County Metropolitan Transportation Authority**  
**Summary of Measure R Audit Results**  
**For the Fiscal Year Ended June 30, 2011**  
**(Continued)**

SCHEDULE 1

<b>Compliance Area Tested</b>	<b>El Monte</b>	<b>Gardena</b>	<b>Hawthorne</b>
Funds were expended for transportation purposes	Compliant	Compliant	Compliant
Fund were used to augment, not supplant, existing local revenues being used for transportation purposes	Compliant	Compliant	Compliant
Evidence of signed and returned Assurances and Understandings agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR purposes	Compliant	Compliant	Compliant
Verification of revenues received, including allocations, project generated revenues, and interest income were properly credited to Measure R account	Compliant	Compliant	Compliant
Verification that funds were expended with LACMTA's approval	<b>Finding-#7</b>	Compliant	Compliant
Verification that funds were not substituted for property tax and is compliant with Assurances and Understandings	Compliant	Compliant	Compliant
Timely submission of Expenditure Plan (Form One)	Compliant	Compliant	Compliant
Timely submission of Expenditure Report (Form Two)	Compliant	Compliant	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditures did not exceed 20% of the total annual LR expenditures	Compliant	Compliant	Compliant
Approval obtained from LACMTA for fund exchange (Trade, Loans, or Gifts)	Not Applicable	Not Applicable	Not Applicable
Verification that funds expended and reimbursed by another fund were properly credited to the LR account upon reimbursement	Not Applicable	Not Applicable	Not Applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not Applicable	Not Applicable	Not Applicable
Establishment of and approval by LACMTA for a reserve fund	Not Applicable	Not Applicable	Not Applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not Applicable	Not Applicable	Not Applicable
Recreational Transit Form was submitted timely for the recreational transit services	Not Applicable	Not Applicable	Not Applicable

**Los Angeles County Metropolitan Transportation Authority**  
**Summary of Measure R Audit Results**  
**For the Fiscal Year Ended June 30, 2011**  
**(Continued)**

SCHEDULE 1

<b>Compliance Area Tested</b>	<b>Hidden Hills</b>	<b>Huntington Park</b>	<b>City of Industry</b>
Funds were expended for transportation purposes	Compliant	Compliant	Compliant
Fund were used to augment, not supplant, existing local revenues being used for transportation purposes	Compliant	Compliant	Compliant
Evidence of signed and returned Assurances and Understandings agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR purposes	Compliant	Compliant	Compliant
Verification of revenues received, including allocations, project generated revenues, and interest income were properly credited to Measure R account	Compliant	Compliant	Compliant
Verification that funds were expended with LACMTA's approval	Compliant	Compliant	Compliant
Verification that funds were not substituted for property tax and is compliant with Assurances and Understandings	Compliant	Compliant	Compliant
Timely submission of Expenditure Plan (Form One)	Compliant	Compliant	Compliant
Timely submission of Expenditure Report (Form Two)	Compliant	Compliant	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditures did not exceed 20% of the total annual LR expenditures	Compliant	Compliant	Compliant
Approval obtained from LACMTA for fund exchange (Trade, Loans, or Gifts)	Not Applicable	Not Applicable	Not Applicable
Verification that funds expended and reimbursed by another fund were properly credited to the LR account upon reimbursement	Not Applicable	Not Applicable	Not Applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not Applicable	Not Applicable	Not Applicable
Establishment of and approval by LACMTA for a reserve fund	Not Applicable	Not Applicable	Not Applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not Applicable	Not Applicable	Not Applicable
Recreational Transit Form was submitted timely for the recreational transit services	Not Applicable	Not Applicable	Not Applicable

**Los Angeles County Metropolitan Transportation Authority**  
**Summary of Measure R Audit Results**  
**For the Fiscal Year Ended June 30, 2011**  
**(Continued)**

SCHEDULE 1

<b>Compliance Area Tested</b>	<b>Inglewood</b>	<b>Irwindale</b>	<b>La Puente</b>
Funds were expended for transportation purposes	Compliant	Compliant	Compliant
Fund were used to augment, not supplant, existing local revenues being used for transportation purposes	Compliant	Compliant	Compliant
Evidence of signed and returned Assurances and Understandings agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR purposes	Compliant	Compliant	Compliant
Verification of revenues received, including allocations, project generated revenues, and interest income were properly credited to Measure R account	Compliant	Compliant	Compliant
Verification that funds were expended with LACMTA's approval	Compliant	Compliant	Compliant
Verification that funds were not substituted for property tax and is compliant with Assurances and Understandings	Compliant	Compliant	Compliant
Timely submission of Expenditure Plan (Form One)	Compliant	Compliant	Compliant
Timely submission of Expenditure Report (Form Two)	Compliant	Compliant	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditures did not exceed 20% of the total annual LR expenditures	Compliant	Compliant	Compliant
Approval obtained from LACMTA for fund exchange (Trade, Loans, or Gifts)	Not Applicable	Not Applicable	Not Applicable
Verification that funds expended and reimbursed by another fund were properly credited to the LR account upon reimbursement	Not Applicable	Not Applicable	Not Applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not Applicable	Not Applicable	Not Applicable
Establishment of and approval by LACMTA for a reserve fund	Not Applicable	Not Applicable	Not Applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not Applicable	Not Applicable	Not Applicable
Recreational Transit Form was submitted timely for the recreational transit services	Not Applicable	Not Applicable	Not Applicable

**Los Angeles County Metropolitan Transportation Authority**  
**Summary of Measure R Audit Results**  
**For the Fiscal Year Ended June 30, 2011**  
**(Continued)**

SCHEDULE 1

Compliance Area Tested	Lawndale	Los Angeles County	Lynwood
Funds were expended for transportation purposes	Compliant	Compliant	Compliant
Fund were used to augment, not supplant, existing local revenues being used for transportation purposes	Compliant	Compliant	Compliant
Evidence of signed and returned Assurances and Understandings agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR purposes	Compliant	Compliant	Compliant
Verification of revenues received, including allocations, project generated revenues, and interest income were properly credited to Measure R account	Compliant	Compliant	Compliant
Verification that funds were expended with LACMTA's approval	Compliant	Compliant	Compliant
Verification that funds were not substituted for property tax and is compliant with Assurances and Understandings	Compliant	Compliant	Compliant
Timely submission of Expenditure Plan (Form One)	Compliant	Compliant	Compliant
Timely submission of Expenditure Report (Form Two)	Compliant	<b>Finding-#8</b>	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditures did not exceed 20% of the total annual LR expenditures	Compliant	Compliant	Compliant
Approval obtained from LACMTA for fund exchange (Trade, Loans, or Gifts)	Not Applicable	Not Applicable	Not Applicable
Verification that funds expended and reimbursed by another fund were properly credited to the LR account upon reimbursement	Not Applicable	Not Applicable	Not Applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not Applicable	Not Applicable	Not Applicable
Establishment of and approval by LACMTA for a reserve fund	Not Applicable	Not Applicable	Not Applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not Applicable	Not Applicable	Not Applicable
Recreational Transit Form was submitted timely for the recreational transit services	Not Applicable	Not Applicable	Not Applicable

**Los Angeles County Metropolitan Transportation Authority**  
**Summary of Measure R Audit Results**  
**For the Fiscal Year Ended June 30, 2011**  
**(Continued)**

SCHEDULE 1

<b>Compliance Area Tested</b>	<b>Malibu</b>	<b>Maywood</b>	<b>Montebello</b>
Funds were expended for transportation purposes	Compliant	Compliant	Compliant
Fund were used to augment, not supplant, existing local revenues being used for transportation purposes	Compliant	Compliant	Compliant
Evidence of signed and returned Assurances and Understandings agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR purposes	Compliant	Compliant	Compliant
Verification of revenues received, including allocations, project generated revenues, and interest income were properly credited to Measure R account	Compliant	<b>Finding-#10</b>	Compliant
Verification that funds were expended with LACMTA's approval	Compliant	Compliant	Compliant
Verification that funds were not substituted for property tax and is compliant with Assurances and Understandings	Compliant	<b>Finding-#9</b>	Compliant
Timely submission of Expenditure Plan (Form One)	Compliant	Compliant	Compliant
Timely submission of Expenditure Report (Form Two)	Compliant	Compliant	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditures did not exceed 20% of the total annual LR expenditures	Compliant	Compliant	Compliant
Approval obtained from LACMTA for fund exchange (Trade, Loans, or Gifts)	Not Applicable	Not Applicable	Not Applicable
Verification that funds expended and reimbursed by another fund were properly credited to the LR account upon reimbursement	Not Applicable	Not Applicable	Not Applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not Applicable	Not Applicable	Not Applicable
Establishment of and approval by LACMTA for a reserve fund	Not Applicable	Not Applicable	Not Applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not Applicable	Not Applicable	Not Applicable
Recreational Transit Form was submitted timely for the recreational transit services	Not Applicable	Not Applicable	Not Applicable

**Los Angeles County Metropolitan Transportation Authority**  
**Summary of Measure R Audit Results**  
**For the Fiscal Year Ended June 30, 2011**  
**(Continued)**

SCHEDULE 1

Compliance Area Tested	Monterey Park	Pico Rivera	Pomona
Funds were expended for transportation purposes	Compliant	Compliant	<b>Finding-#11</b> <b>Finding-#12</b>
Fund were used to augment, not supplant, existing local revenues being used for transportation purposes	Compliant	Compliant	Compliant
Evidence of signed and returned Assurances and Understandings agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR purposes	Compliant	Compliant	Compliant
Verification of revenues received, including allocations, project generated revenues, and interest income were properly credited to Measure R account	Compliant	Compliant	Compliant
Verification that funds were expended with LACMTA's approval	Compliant	Compliant	Compliant
Verification that funds were not substituted for property tax and is compliant with Assurances and Understandings	Compliant	Compliant	Compliant
Timely submission of Expenditure Plan (Form One)	Compliant	Compliant	Compliant
Timely submission of Expenditure Report (Form Two)	Compliant	Compliant	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditures did not exceed 20% of the total annual LR expenditures	Compliant	Compliant	Compliant
Approval obtained from LACMTA for fund exchange (Trade, Loans, or Gifts)	Not Applicable	Not Applicable	Not Applicable
Verification that funds expended and reimbursed by another fund were properly credited to the LR account upon reimbursement	Not Applicable	Not Applicable	Not Applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not Applicable	Not Applicable	Not Applicable
Establishment of and approval by LACMTA for a reserve fund	Not Applicable	Not Applicable	Not Applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not Applicable	Not Applicable	Not Applicable
Recreational Transit Form was submitted timely for the recreational transit services	Not Applicable	Not Applicable	Not Applicable

**Los Angeles County Metropolitan Transportation Authority**  
**Summary of Measure R Audit Results**  
**For the Fiscal Year Ended June 30, 2011**  
**(Continued)**

SCHEDULE 1

Compliance Area Tested	Rosemead	San Fernando	Santa Fe Springs
Funds were expended for transportation purposes	<b>Finding-#13</b> <b>Finding-#14</b>	Compliant	Compliant
Fund were used to augment, not supplant, existing local revenues being used for transportation purposes	Compliant	Compliant	Compliant
Evidence of signed and returned Assurances and Understandings agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR purposes	Compliant	Compliant	Compliant
Verification of revenues received, including allocations, project generated revenues, and interest income were properly credited to Measure R account	Compliant	Compliant	Compliant
Verification that funds were expended with LACMTA's approval	Compliant	Compliant	Compliant
Verification that funds were not substituted for property tax and is compliant with Assurances and Understandings	Compliant	Compliant	Compliant
Timely submission of Expenditure Plan (Form One)	Compliant	Compliant	Compliant
Timely submission of Expenditure Report (Form Two)	Compliant	Compliant	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditures did not exceed 20% of the total annual LR expenditures	Compliant	Compliant	Compliant
Approval obtained from LACMTA for fund exchange (Trade, Loans, or Gifts)	Not Applicable	Not Applicable	Not Applicable
Verification that funds expended and reimbursed by another fund were properly credited to the LR account upon reimbursement	Not Applicable	Not Applicable	Not Applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not Applicable	Not Applicable	Not Applicable
Establishment of and approval by LACMTA for a reserve fund	Not Applicable	Not Applicable	Not Applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not Applicable	Not Applicable	Not Applicable
Recreational Transit Form was submitted timely for the recreational transit services	Not Applicable	Not Applicable	Not Applicable

**Los Angeles County Metropolitan Transportation Authority**  
**Summary of Measure R Audit Results**  
**For the Fiscal Year Ended June 30, 2011**  
**(Continued)**

SCHEDULE 1

Compliance Area Tested	Santa Monica	South El Monte	South Gate
Funds were expended for transportation purposes	Compliant	<b>Finding-#15</b> <b>Finding-#16</b>	Compliant
Fund were used to augment, not supplant, existing local revenues being used for transportation purposes	Compliant	Compliant	Compliant
Evidence of signed and returned Assurances and Understandings agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR purposes	Compliant	Compliant	Compliant
Verification of revenues received, including allocations, project generated revenues, and interest income were properly credited to Measure R account	Compliant	Compliant	Compliant
Verification that funds were expended with LACMTA's approval	Compliant	Compliant	<b>Finding-#17</b>
Verification that funds were not substituted for property tax and is compliant with Assurances and Understandings	Compliant	Compliant	Compliant
Timely submission of Expenditure Plan (Form One)	Compliant	Compliant	Compliant
Timely submission of Expenditure Report (Form Two)	Compliant	Compliant	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditures did not exceed 20% of the total annual LR expenditures	Compliant	Compliant	Compliant
Approval obtained from LACMTA for fund exchange (Trade, Loans, or Gifts)	Not Applicable	Not Applicable	Not Applicable
Verification that funds expended and reimbursed by another fund were properly credited to the LR account upon reimbursement	Not Applicable	Not Applicable	Not Applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not Applicable	Not Applicable	Not Applicable
Establishment of and approval by LACMTA for a reserve fund	Not Applicable	Not Applicable	Not Applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not Applicable	Not Applicable	Not Applicable
Recreational Transit Form was submitted timely for the recreational transit services	Not Applicable	Not Applicable	Not Applicable



**Los Angeles County Metropolitan Transportation Authority**  
**Summary of Measure R Audit Results**  
**For the Fiscal Year Ended June 30, 2011**  
**(Continued)**

SCHEDULE 1

<b>Compliance Area Tested</b>	<b>Walnut</b>	<b>West Hollywood</b>	<b>Westlake Village</b>
Funds were expended for transportation purposes	Compliant	Compliant	Compliant
Fund were used to augment, not supplant, existing local revenues being used for transportation purposes	Compliant	Compliant	Compliant
Evidence of signed and returned Assurances and Understandings agreement	Compliant	Compliant	Compliant
Accounts and records have established a separate operating Measure R Local Transportation Assistance Account for LR purposes	Compliant	Compliant	<b>Finding-#18</b>
Verification of revenues received, including allocations, project generated revenues, and interest income were properly credited to Measure R account	Compliant	Compliant	Compliant
Verification that funds were expended with LACMTA's approval	Compliant	Compliant	Compliant
Verification that funds were not substituted for property tax and is compliant with Assurances and Understandings	Compliant	Compliant	Compliant
Timely submission of Expenditure Plan (Form One)	Compliant	Compliant	Compliant
Timely submission of Expenditure Report (Form Two)	Compliant	Compliant	Compliant
Timely use of funds	Compliant	Compliant	Compliant
Administrative expenditures did not exceed 20% of the total annual LR expenditures	Compliant	Compliant	Compliant
Approval obtained from LACMTA for fund exchange (Trade, Loans, or Gifts)	Not Applicable	Not Applicable	Not Applicable
Verification that funds expended and reimbursed by another fund were properly credited to the LR account upon reimbursement	Not Applicable	Not Applicable	Not Applicable
Verification that funds exchanged with another jurisdiction were properly recorded by that jurisdiction	Not Applicable	Not Applicable	Not Applicable
Establishment of and approval by LACMTA for a reserve fund	Not Applicable	Not Applicable	Not Applicable
For capital reserve fund, verification that a separate account has been established, and the current status is reported in the expenditure plan	Not Applicable	Not Applicable	Not Applicable
Recreational Transit Form was submitted timely for the recreational transit services	Not Applicable	Not Applicable	Not Applicable

**LACMTA Consolidated Audit  
Fiscal Year 2011  
Schedule of Findings and Questioned Costs**

SCHEDULE 2

<b>Finding 1</b>	<b>City of Baldwin Park</b>
Compliance Reference	Per Measure R Guidelines, Section B (II.1), it states that "LACMTA will provide Local Return funds to a capital project or program sponsor who submits the required expenditure plan containing the following: (1) The estimated total cost for each project and/or program activity."
Condition	Street Repairs and Maintenance on Bus Routes and Near Bus Stops and Pavement Restriping and Marking to Improve Multi-Modal Use projects for a total amount of \$33,335 for Measure R Local Return Funds were incurred without receiving approval from LACMTA. However, the City subsequently received LACMTA's approval on February 9, 2011.
Cause	The City did not submit Form One (Expenditure Plan) on time as they were unaware of the importance of meeting the filing requirements of the Measure R Local Return Guidelines.
Effect	The City expended Measure R Funds prior to LACMTA's approval. Incurred expenditures prior to LACMTA's approval resulted in questioned costs of \$33,335.
Recommendation	In accordance with the Guidelines, the City should be required to reimburse its Measure R Local Return Account \$33,335. In addition, we recommend that the City establish procedures to ensure that the Form One (Expenditure Plan) is properly prepared and submitted before the due date of August 1st so that the City's expenditures of Measure R Local Return Funds will be in accordance with LACMTA's approval and the Guidelines.
Management's Response	The City has previously spent LACMTA funds and has knowledge of the types of expenses allowed for LACMTA projects, which includes Measure R. Since the City began to receive funding, it began spending based on project guidelines while the Form One was finalized; the monies spent were for eligible expenses. The City will submit Form One prior to spending monies in the future.

**LACMTA Consolidated Audit  
Fiscal Year 2011  
Schedule of Findings and Questioned Costs  
(Continued)**

SCHEDULE 2

<b>Finding 2</b>	<b>City of Baldwin Park</b>
Compliance Reference	Per Measure R Guidelines, Section B (II.1), it states that "Jurisdictions shall submit to LACMTA an Expenditure Plan (Form One), annually by August 1 <sup>st</sup> of each year."
Condition	The City did not meet the August 1, 2010 deadline for submission of Form One. However, the City submitted the Form One on February 8, 2011.
Cause	The City was not aware of the importance of submitting Form One to meet the compliance requirements of the Measure R Local Return guidelines.
Effect	The City's Form One was not submitted timely.
Recommendation	We recommend that the City establish procedures to ensure that the Form One (Expenditure Plan) is properly prepared and submitted before the due date of August 1st so that the City's expenditures of the Measure R Local Return Funds will be in accordance with LACMTA's approval and the Guidelines.
Management's Response	The City will submit all required reports on a timely basis. Since Measure R was a new funding source, the City required additional time to prepare the projects that would use the funds in the upcoming year.

**LACMTA Consolidated Audit  
Fiscal Year 2011  
Schedule of Findings and Questioned Costs  
(Continued)**

SCHEDULE 2

<b>Finding 3</b>	<b>City of Bell Gardens</b>
Compliance Reference	Per Measure R Guidelines, Section B (II.1), it states that "LACMTA will provide Local Return funds to a capital project or program sponsor who submits the required expenditure plan containing the following: (1) The estimated total cost for each project and/or program activity."
Condition	The expenditures for Truck Impacted Intersection; Ajax/Florence and Jaboneria/Florence Project in the amount of \$98,912 were incurred prior to approval from LACMTA. However, the City subsequently received LACMTA's approval on June 7, 2011.
Cause	The City's Form One (Expenditure Plan) did not include all Measure R Local Return projects.
Effect	The City expended Measure R Local Return Funds prior to LACMTA's approval. Incurred expenditures prior to LACMTA's approval resulted in questioned costs of \$98,912.
Recommendation	In accordance with the Guidelines, the City should be required to reimburse its Measure R Local Return Account \$98,912. In addition, we recommend that the City establish procedures to ensure that the Form One (Expenditure Plan) is properly prepared and submitted before the due date of August 1st so that the City's expenditures of the Measure R Local Return Funds will be in accordance with LACMTA's approval and the Guidelines. In accordance with the Guidelines, the City should include all new, amended, ongoing, and carryover projects in Form One.
Management's Response	The project was approved on February 23, 2010 under FY 2009 budget. A revised amount was submitted to the LACMTA based on final expenditures incurred.
Auditor's Rejoinder	The requirement by LACMTA states that all Measure R Local Return projects, on-going and/or new, which are expected to incur costs in any particular fiscal year should be reported on Form One (Expenditure Plan) and concurrently should be approved by LACMTA annually. The fact that the project was initially approved under the fiscal year 2009 budget does not waive the aforementioned requirement. Expenditures incurred in fiscal year 2011 still need LACMTA's approval through the submission of Form One by its required due date, regardless of the City having the same projects year-to-year.

**LACMTA Consolidated Audit  
Fiscal Year 2011  
Schedule of Findings and Questioned Costs  
(Continued)**

SCHEDULE 2

<b>Finding 4</b>	<b>City of Compton</b>
Compliance Reference	Per Measure R Guidelines, Section A (I), it states that "Local Return funds are to be used for transportation purposes. No net revenues distributed to Jurisdictions may be used for purposes other than transportation purposes."
Condition	Cash and cash equivalents were not properly maintained. As of June 30, 2011, the City should have restricted Measure R Local Return cash balance of \$1,008,149 to be used for transportation purposes. However, the City's total cash balance has a deficit of \$6.4 million. Therefore, the City has spent all of the Measure R Local Return Fund balances on expenditures unrelated to Measure R Local Return Funds purposes.
Cause	Because of the City's poor financial conditions, cash and cash equivalents for Measure R Local Return Funds were not properly maintained.
Effect	Measure R Local Return Funds were used for the City's other programs which were not Measure R Local Return programs. Questioned costs for improper use of funds are \$1,008,149.
Recommendation	In accordance with the Guidelines, the City should be required to reimburse its Measure R Local Return Account \$1,008,149. In addition, we recommend that the LACMTA ascertain that the City has re-established its Measure R Local Return Account balance and it has established adequate controls to ensure that the Measure R Local Return Fund balance is properly maintained and restricted to be expended only for the LACMTA's approved Measure R Local Return projects regardless of the City's financial conditions.
Management's Response	As of June 30, 2011, the General Fund checking account bank reconciliation showed a negative balance of \$10,378,288. However, there were unreleased checks in the amount of \$12,464,291 that should be accounted for as liabilities. If the unreleased checks are added back to liabilities, the bank balance will be approximately \$2 million. In addition, the City has a Local Agency Investment Fund (LAIF) restricted investment balance of \$3.9 million for Measure R and other grants. Subsequently, the City opened a separate bank account for Measure R Local Return Funds with the sole purpose of tracking Measure R Local Return Funds bank balance. The City Treasurer has agreed to break the LAIF investment (with balance of \$6.9 million as of June 30, 2011) and put Measure R Local Return Funds' balance in the newly opened bank account.

**LACMTA Consolidated Audit**  
**Fiscal Year 2011**  
**Schedule of Findings and Questioned Costs**  
**(Continued)**

SCHEDULE 2

<b>Finding 4</b>	<b>City of Compton (Continued)</b>
Auditor's Rejoinder	<p>When considering all of the City's cash and cash equivalences, based upon this City's bank reconciliations, the City has a cash deficit at June 30, 2011. This indicates that all of the City's cash, including the Measure R Local Return cash of \$1,008,149 have been used or obligated to pay the City's Non-Measure R Local Return obligations. The representation by the City's management that \$12.4 million of written checks are being held and not released for payment does not resolve the City's overall deficit financial position.</p> <p>The City management represents that even though the City may have an overall deficit, its LAIF investment balance of \$3.9 million includes the Measure R Local Return Funds. However, we conclude that because of the City's overall significant cash deficit position, it is not possible to ascertain whether any of the LAIF investment account balances includes Measure R Local Return Funds.</p> <p>We agree with the City's subsequent action of maintaining a separate bank account for Measure Local Return Fund.</p>

**LACMTA Consolidated Audit  
Fiscal Year 2011  
Schedule of Findings and Questioned Costs  
(Continued)**

SCHEDULE 2

<b>Finding 5</b>	<b>City of Cudahy</b>
Compliance Reference	Per Measure R Guidelines, Section A (I), it states that "Local Return funds are to be used for transportation purposes. No net revenues distributed to Jurisdictions may be used for purposes other than transportation purposes."
Condition	The City was not able to provide an invoice to support a payment in the amount of \$2,000 to D&J Engineering.
Cause	The City misplaced the invoice.
Effect	Questioned costs for unsupported expenditures in the amount of \$2,000.
Recommendation	In accordance with the Guidelines, the City should be required to reimburse its Measure R Local Return Account \$2,000. In addition, we recommend that the City maintain proper accounting records and adequate internal controls over its source document.
Management's Response	The invoice from D & J Engineering in the amount of \$2,000 for engineering services rendered in connection with street work done at Patata street was covered by check No 33017. This check includes several invoices among of which the invoice for \$2,000 is missing. We presented the cancelled check to the LACMTA auditor with the supporting invoices. However, the invoice for \$2,000 was separated from the batch and missing. There have been personnel transitions at City Hall and with the engineering firm of D & J. It is possible that that particular invoice was misplaced when the invoices pertaining to D & J were reviewed by several people during the transition. The City staff have been instructed not to release original invoices from now on, to prevent a repeat of this happening again. Instead, copies would be made from the original to be given to anyone requesting to see any invoice from our vendor files. The recommendation to return the funds to MTA is unwarranted because the invoice from D & J engineering is a valid Measure R expenditure and funds have been disbursed to the vendor supported by a cancelled check paid to the vendor for services rendered and a legitimate expenditure.

**LACMTA Consolidated Audit  
Fiscal Year 2011  
Schedule of Findings and Questioned Costs  
(Continued)**

SCHEDULE 2

<b>Finding 6</b>	<b>City of Cudahy</b>
Compliance Reference	Per Measure R Guidelines, Section B (II.2), it states that "Jurisdictions shall submit a Form Two, to LACMTA annually, by October 15 <sup>th</sup> (following the conclusion of the fiscal year)."
Condition	The City did not meet the October 15, 2010 deadline for submission of Form Two. The City did not submit the Form Two to LACMTA as of December 15, 2011.
Cause	The City was not aware of the importance of submitting Form Two to meet the compliance requirements of the Measure R Local Return guidelines.
Effect	The City's Form Two was not submitted timely.
Recommendation	We recommend that the City establish procedures to ensure that the Form Two (Expenditure Report) is properly prepared and submitted prior to the October 15 <sup>th</sup> deadline and the City retain a confirmation of receipt by LACMTA to comply with the Guidelines.
Management's Response	A report was filed and submitted online. It was possible that upon transmission it was lost.



**LACMTA Consolidated Audit**  
**Fiscal Year 2011**  
**Schedule of Findings and Questioned Costs**  
**(Continued)**

SCHEDULE 2

<b>Finding 7</b>	<b>City of El Monte</b>
Compliance Reference	Per Measure R Guidelines, Section B (II.1), it states that "LACMTA will provide Local Return funds to a capital project or program sponsor who submits the required expenditure plan containing the following: (1) The estimated total cost for each project and/or program activity."
Condition	The expenditures for the SR-60 Gold Line Coalition- Eastside Extension project in the amount of \$12,000 and Project Planning Studies in the amount of \$74,586 were incurred prior to the approval from LACMTA. However, the projects were subsequently approved by LACMTA on November 3, 2011.
Cause	The City was not aware of the reporting requirement for Form One.
Effect	The Expenditures for Measure R Local Return programs were incurred prior to LACMTA's approval. Incurred expenditures prior to LACMTA's approval resulted in questioned costs of \$86,586.
Recommendation	In accordance with the Guidelines, the City should be required to reimburse its Measure R Local Return Account \$86,586. In addition, we recommend that the City establish procedures to ensure that the Form One (Expenditure Plan) is properly prepared and submitted before the due date of August 1st so that the City's expenditures of the Measure R Local Return Funds will be in accordance with LACMTA's approval and the Guidelines. In accordance with the Guidelines, the City should include all new, amended, ongoing, and carryover projects in the Form One. Finally, we recommend that LACMTA's Program Manager seek approval from the Board for any retroactive approvals granted to jurisdictions.
Management's Response	In FY 2010-11, the City incurred expenses for planning studies associated with the SR-60 for Gold Line Coalition Planning Study \$12,000. At the time, the city had interpreted the LACMTA Measure R Local Return guidelines stipulate that an annual submission was required by August 1 <sup>st</sup> of each year and that resubmission of expenditure plan (Form One) was not required for reallocation of plan monies. The City has been aware of this requirement, and has submitted a revised Form One for these costs; and more importantly, the City has complied with this requirement going forward.

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(Continued)**

SCHEDULE 2

<b>Finding 8</b>	<b>County of Los Angeles</b>
Compliance Reference	Per Measure R Guidelines, Section B (II.2), it states that "Jurisdictions shall submit a Form Two, to LACMTA annually, by October 15 <sup>th</sup> (following the conclusion of the fiscal year)."
Condition	The County did not meet the October 15, 2011 deadline for submission of Form Two. However, the County submitted the Form Two to LACMTA on October 21, 2010.
Cause	The County was not aware of the importance of submitting Form Two to meet the compliance requirements of the Measure R Local Return guidelines.
Effect	The County's Form Two was not submitted timely.
Recommendation	We recommend that the County establish procedures to ensure that the Form Two (Expenditure Report) is properly prepared and submitted prior to the October 15 <sup>th</sup> deadline and the County retain a confirmation of receipt by LACMTA to comply with the Guidelines.
Management's Response	The County provided the Measure R Form Two to LACMTA on October 21, 2010, and will endeavor to meet the established deadline in the future.

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SCHEDULE 2

Finding 9	City of Maywood
Compliance Reference	Per Measure R Guidelines, Section B (III), it states that "Measure R Local Return Program funds are to be used to augment, not supplant, existing local revenues being used for transportation purposes. Jurisdictions must maintain their individual existing local commitment of funds, for current transportation projects and services."
Condition	Measure R Local Return fund's cash and equivalents were not properly maintained. Based on the City's bank reconciliation as of June 30, 2011, the City's cash balance of \$2,811,178 less the total amount of the specially designated funds' positive cash balances of \$3,660,051 and the total amount of the Measure R Local Return fund's cash balance of \$441,799 resulted in a deficit of \$1,290,672 to the City's other funds' cash balances. Therefore, the Measure R Local Return Funds were used for the City's other non-Measure R Local Return programs.
Cause	The City did not have Measure R Local Return projects in fiscal year 2011. However, the City deposited more than 95 percent of Measure R Local Return funds in the City's checking account with the City's other funds and did not restrict the payments from the Measure R Local Return fund for other programs. Therefore, the Fund was used to pay for the City's other programs' liabilities.
Effect	The City used Measure R Local Return funds to operate the City's other non-Measure R Local Return programs and the City did not maintain Measure Local Return fund's cash and cash equivalents properly. Improper use of the fund resulted in questioned costs of \$441,799.
Recommendation	In accordance with the Guidelines, the City should be required to reimburse its Measure R Local Return Account \$441,799. In addition, we recommend that the LACMTA ascertain that the City has re-established its Measure R Local Return Account balance and it has established adequate controls to ensure that the Measure R Local Return Fund balance is properly maintained and restricted to be expended only for the LACMTA's approved Measure R Local Return projects regardless of the City's financial conditions.
Management's Response	The City is open to reviewing recommendations and will cooperate to implement better management of Measure R Local Return fund.

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**(Continued)**

SCHEDULE 2

<b>Finding 10</b>	<b>City of Maywood</b>
Compliance Reference	Per Measure R Guidelines, Section B (VI.5); Pooling of Funds, it states that "LACMTA will allow Jurisdictions' to pool Measure R Local Return funds in order to obtain maximum return on investments. Such investments earnings must be reported and expended consistent with these guidelines."
Condition	Interest income was under-allocated to the Measure R Local Return Fund.
Cause	The City deposited more than 95 percent of the Measure R Local Return Funds into the City's checking account and not an investment account even though the City did not have a Measure R Local Return project in the fiscal year 2011.
Effect	Based on the fiscal year 2011 Pooled Money Investment Account (PMIA) average monthly effective yields issued by California State Treasurer, we estimate the interest due to the Measure R Local Return Fund for FY 2011 to be \$1,571. The under allocation of interest income resulted in questioned costs of \$1,571.
Recommendation	In accordance with the Guidelines, the City should be required to reimburse its Measure R Local Return Account \$1,571. As part of the City's fiscal responsibility and in order to comply with the Guidelines, we recommend that the City establish procedures to ensure that unused Measure R Local Return Funds are deposited with other City funds into the Local Agency Investment Fund (LAIF) account or other investment accounts. The share of each fund in the pooled cash account should be separately maintained and interest income should be apportioned to the participating funds based on the relationship of their average monthly or quarterly balances to the total of the pooled cash and investments.
Management's Response	The City is open to reviewing recommendations and will cooperate to implement better management of Measure R Local Return Fund.

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(Continued)**

SCHEDULE 2

<b>Finding 11</b>	<b>City of Pomona</b>
Compliance Reference	Per Measure R Guidelines, Section B (VII. Audit Section), it states that "Jurisdictions are required to expend their Measure R Local Return funds for transportation purposes, as defined by the Guidelines" and "It is the Jurisdictions' responsibility to maintain proper accounting records and documentation."
Condition	Salaries in the amount of \$11,767 were charged to Measure R Local Return Fund based on estimates without adequate documentation such as time sheets being provided to support employees' actual working hours spent on the fund projects.
Cause	The City used a pre-allocation (estimate) percentage of employees' salaries to be charged to the Measure R Local Return Funds.
Effect	The unsupported salaries resulted in questioned costs of \$11,767.
Recommendation	In accordance with the Guidelines, the City should be required to reimburse its Measure R Local Return Account \$11,767. In addition, we recommend that the City revise its current labor costs reporting procedures to ensure that labor costs charged to Measure R Local Return Funds are adequately supported by time sheets or similar documentation which include employees' actual direct working hours.
Management's Response	City to review – LACMTA has not provided any indication/guidance regarding current payroll practice.

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SCHEDULE 2

<b>Finding 12</b>	<b>City of Pomona</b>
Compliance Reference	Per Measure R Guidelines, Section B (VII. Audit Section), it states that "Jurisdictions are required to expend their Measure R Local Return funds for transportation purposes, as defined by the Guidelines" and "It is the Jurisdictions' responsibility to maintain proper accounting records and documentation."
Condition	The amount of \$12,667 which was 20% of three employees' lump sum termination pay was charged to the Measure R Local Return Funds. No adequate documentation was provided to support justification of 20% of the lump sum amount.
Cause	The City used a pre-allocation (estimate) percentage of employees' salaries to be charged to the Measure R Local Return Fund and same estimated percentage was used to charge the lump sum termination pay.
Effect	The unsupported lump sum termination pay resulted in questioned costs of \$12,667.
Recommendation	In accordance with the Guidelines, the City should be required to reimburse its Measure R Local Return Account \$12,667. In addition, we recommend that the City revise its current termination or retirement expense reporting procedures to ensure that employees' actual working periods (i.e., month or years) for each program be used to charge termination or retirement lump sum pay to the Measure R Local Return Fund.
Management's Response	City to review – LACMTA has not provided any indication/guidance regarding current payroll practice.

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SCHEDULE 2

<b>Finding 13</b>	<b>City of Rosemead</b>
Compliance Reference	Per Measure R Guidelines, Section B (VII. Audit Section), it states that "Jurisdictions are required to expend their Measure R Local Return funds for transportation purposes, as defined by the Guidelines" and "It is the Jurisdictions' responsibility to maintain proper accounting records and documentation."
Condition	The employees' time sheets did not support the hours charged to the Measure R Local Return Fund in the amount of \$1,134.
Cause	This was an oversight by City personnel.
Effect	The unsupported hours resulted in questioned costs of \$1,134.
Recommendation	In accordance with the Guidelines, the City should be required to reimburse its Measure R Local Return Account \$1,134. In addition, we recommend that the City establish review procedures to ensure that only employees' actual working hours documented on their time sheets are charged to Measure R Local Return Funds.
Management's Response	Management acknowledges a calculation error leading to a cost overage of \$1,134. The City has implemented new accounting system that will aid in avoiding any future oversights such as the one included in this report.

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(Continued)**

SCHEDULE 2

<b>Finding 14</b>	<b>City of Rosemead</b>
Compliance Reference	Per Measure R Guidelines, Section B (VII. Audit Section), it states that "Jurisdictions are required to expend their Measure R Local Return funds for transportation purposes, as defined by the Guidelines" and "It is the Jurisdictions' responsibility to maintain proper accounting records and documentation."
Condition	The City charged workers' compensation costs in excess of the actual costs incurred.
Cause	The City charged the workers' compensation to Measure R Local Return fund based on a budget estimation with no reconciliation being performed at year end.
Effect	The excess workers' compensation costs resulted in questioned costs of \$13,908.
Recommendation	In accordance with the Guidelines, the City should be required to reimburse its Measure R Local Return Account \$13,908. In addition, we recommend that the City establish controls to ensure that the costs allocated to the Measure R Local Return Fund are adequately documented and are in compliance with the Guidelines.
Management's Response	Management agrees with the finding and it was due to a formula error. The City will correct this in FY 2011-12.



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SCHEDULE 2

<b>Finding 15</b>	<b>City of South El Monte</b>
Compliance Reference	Per Measure R Guidelines, Section B (VII. Audit Section), it states that "Jurisdictions are required to expend their Measure R Local Return funds for transportation purposes, as defined by the Guidelines" and "It is the Jurisdictions' responsibility to maintain proper accounting records and documentation."
Condition	Payments to Mike Roos and Company (Consultant) for services rendered from July 2010 through June 2011 were based on an expired contract agreement and were charged to the LACMTA's approved SR-60 Coalition Work project for a total amount of \$120,000 to the Measure R Local Return Fund. However, subsequently the City Council retroactively approved the contract amendment on December 13, 2011.
Cause	The contract with Mike Roos and Company was not renewed before contract expiration.
Effect	The payments based on an expired contract from July 2010 through June 2011 resulted in questioned costs of \$120,000.
Recommendation	In accordance with the Guidelines, the City should be required to reimburse its Measure R Local Return Account \$120,000. In addition, we recommend that the City review and ensure its internal controls to establish to ensure that payments are not made based upon expired contracts. We also recommend that the City work with LACMTA's Program Manager to address the timing difference.
Management's Response	Amendment to the contract will be adopted at the December 13, 2011 City Council Meeting.

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SCHEDULE 2

<b>Finding 16</b>	<b>City of South El Monte</b>
Compliance Reference	Per Measure R Guidelines, Section B (VII. Audit Section), it states that "It is the Jurisdictions' responsibility to maintain proper accounting records and documentation" and "Jurisdictions are required to expend their Measure R Local Return funds for transportation purposes, as defined by these guidelines."
Condition	The City charged all of the expenditures relating to a conference to Measure R Local Return Funds, i.e., conference fees, hotel charges, dinner, transportation, and other expenses, incurred by the Consultant who attended the Congressional City conference. Our review of the conference agenda indicated that the topics discussed were not only related to rebuilding the nation's transportation infrastructure system, but also gave local officials the opportunity to discuss federal priorities, protecting proven federal investments like Community Development Block Grant Program, and Job Creation Cities, which are not related to transportation.
Cause	The City's managements believed that the expenditures were allowable under the Guidelines.
Effect	The unallowable costs charged to the Measure R Local Return Fund resulted in questioned costs of \$10,250.
Recommendation	In accordance with the Guidelines, the City should be required to reimburse its Measure R Local Return Account \$10,250. In addition, we recommend that the City's accounting personnel responsible for the Measure R Local Return programs be adequately trained on the program requirements and the Guidelines.

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(Continued)**

SCHEDULE 2

<b>Finding 16</b>	<b>City of South El Monte (Continued)</b>
Management's Response	<p>The City of South El Monte attended Railvolution Transportation Conference in Washington DC in order to continue the advancement of the State Route 60 light rail alternative and various transit oriented development along the corridor. While in Washington DC, the South El Monte delegation attended various seminars that dealt with the development of transit oriented developments, specifically light rail, and the issues of nimbysm, financing, maximizing the first and last mile opportunities within a transportation route, creating more pedestrian and passenger friendly sustainable communities, and incorporating bicycle and bus routes into your developments. In addition, the City delegation met with members of Congress including Judy Chu and Grace Napolitano to educate them on the regional transportation needs, the economic impact of the light rail development along the SR-60 corridor and the number of potential jobs that would be created in the region. Moreover, the delegation met with members of the Alameda Corridor East and the San Gabriel Valley Coalition of Governments to discuss the issues of goods movement and long term economic impact of region that may include dedicated truck lanes, street closures and timelines of the goods movement. More importantly, the City delegation was able to secure a last minute meeting with the Army Corps of Engineers on the day of our departure. The meeting was approximately 3 hours before our scheduled departure but was so vital to our trip that we obtained a shuttle to pick us up from our hotel and wait for us while we met with the Army Corps of Engineers. During the meeting, we discussed the 29 acres site, and potential station and transit oriented development along on Santa Anita Avenue along the SR-60 alignment. The City presented three concepts that utilized both the 7 acres owned by the ACOE and the 22 acre easement that is privately held. The meeting provided the City with the guidelines necessary for any development to occur on the proposed site. This meeting with the ACOE and the Washington DC trip has been essential in finalizing plans that can bring much needed transportation to the San Gabriel Valley, ease congestion and improve goods movements for the next 30 years.</p> <p>The City's main priority in attending the Congressional City Conference is the rebuilding of the nation's transportation infrastructure system through the City's collaborated plan of the SR-60. This is the reason it was billed 100% to Measure R.</p>

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SCHEDULE 2

<b>Finding 16</b>	<b>City of South El Monte (Continued)</b>
Auditor's Rejoinder	<p>The foundation of Governmental accounting lies within one sole objective, which is one of fiscal accountability. Accountability includes but is not limited to the effective and efficient use of resources entrusted to the City.</p> <p>The aforementioned management response explicitly states that the "<i>South El Monte Delegation attended various seminars that dealt with the development of transit oriented development specifically light rail</i>". The Measure R Local Return guidelines does allow expenditures for the "planning" of streets and roads, which is more hard (direct) costs to consultants, engineers and other professional services. However, the Guidelines does not allow the attendance of this conference which would be considered abstract (soft) or indirect costs.</p> <p>Based upon the registration document that the City provided the "Railvolution Transportation Conference" that the City Consultant and the City employees attended from March 14, 2011 to March 16, 2011 was the "Congressional City Conference 2011" held by the National League of Cities (NLC). The conference is a NLC's annual legislative meeting with local officials to provide opportunity to discuss federal priorities that are most important to communities.</p> <p>As noted, based on the NLC's Congressional City Conference 2011 website, the top priorities were the protection of federal investments such as the Community Development Block Grant (CDBG) and rebuilding the nation's transportation system. Therefore, these conference expenses more appropriately should have been allocated amongst the following 1) CDBG and the 2) Highway Planning and Construction programs.</p> <p>Additionally, based upon our review of the video tapes of the conference material, only 3 hours of the 3-day conference pertained to the "<i>transit oriented development</i>".</p>

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SCHEDULE 2

<b>Finding 17</b>	<b>City of South Gate</b>
Compliance Reference	Per Measure R Guidelines, Section B (II.1), it states that "LACMTA will provide Local Return funds to a capital project or program sponsor who submits the required expenditure plan containing the following: (1) The estimated total cost for each project and/or program activity."
Condition	The expenditures in the amount of \$84,032 for State Street Improvements Project were incurred prior to the approval from LACMTA. However, the project was subsequently approved by LACMTA on November 3, 2011.
Cause	The City did not request project approval from LACMTA prior to incurring expenditures.
Effect	The City expended Measure R Local Return Funds prior to LACMTA's approval. Incurred expenditures prior to LACMTA's approval resulted in questioned costs of \$84,032.
Recommendation	In accordance with the Guidelines, the City should be required to reimburse its Measure R Local Return Account \$84,032. In addition, we recommend that the City establish procedures to ensure that the Form One (Expenditure Plan) is properly prepared and submitted before the due date of August 1st so that the City's expenditure of the Measure R Local Return Fund will be expended in accordance with LACMTA's approval and the Guidelines. Also, the City should request a new or amended project approval from LACMTA throughout the year prior to incurring expenditures. Finally, we recommend that LACMTA's Program Manager seek approval from the Board for any retroactive approvals granted to jurisdictions.
Management's Response	LACMTA subsequently approved the addition of this project on November 3, 2011.

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(Continued)**

SCHEDULE 2

<b>Finding 18</b>	<b>City of Westlake Village</b>
Compliance Reference	Per Measure R Guidelines, Section B (VI.), it states that "Jurisdictions are required to establish a separate account, or sub-account (line item), and deposit all Measure R Local Return revenues, interest earnings received, and other income earned (such as fare revenues, revenue from advertising, etc.) in that account."
Condition	During the fiscal year, the City recorded the Measure R Local Return Fund revenues in the Arterial Financing Fund which did not contain a separate account for Measure R Local Return activities. Therefore, the Measure R Local Return Funds were not recorded in a separate account during the fiscal year.
Cause	This was an oversight by City personnel.
Effect	Measure R Local Return Funds revenues were not properly recorded in a separate general ledger account.
Recommendation	We recommend that the City improve its internal controls to properly record Measure R Local Return revenues in the Measure R Local Return general ledger account in future fiscal years, and comply with the Guidelines.
Management's Response	The City did set up a separate general ledger account for Measure R Local Return Funds but failed to record the revenues properly to that account. The City plans to record all future Measure R Local Return revenues and related expenditures on a separate account in fiscal year 2011-12.