

***CITY OF SOUTH PASADENA
ANNUAL FINANCIAL REPORT OF THE
PROPOSITION A LOCAL RETURN FUND
PROPOSITION C LOCAL RETURN FUND
FOR THE FISCAL YEARS ENDED
JUNE 30, 2018 AND 2017***



Metro[®]



Simpson & Simpson, LLP
Certified Public Accountants

CITY OF SOUTH PASADENA
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FINANCIAL SECTION



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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Proposition A Local Return Fund (PALRF) and Proposition C Local Return Fund (PCLRF) (collectively, the Funds), of the City of South Pasadena, California (the City) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the PALRF and PCLRF of the City of South Pasadena, California, as of June 30, 2018 and 2017, and the respective changes in their financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the PALRF and PCLRF of the City and do not purport to, and do not, present fairly the financial position of the City of South Pasadena, California, as of June 30, 2018 and 2017, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on each of the Funds' financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the Funds' financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Funds' financial statements or to the Funds' financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to each of the Funds' financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated December 27, 2018, on our consideration of the City's internal control over the Funds' financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over the Funds' financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over the Funds' financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over the Funds' financial reporting and compliance.

A handwritten signature in cursive script that reads "Simpson & Simpson".

Los Angeles, California
December 27, 2018

CITY OF SOUTH PASADENA
PROPOSITION A LOCAL RETURN FUND
BALANCE SHEETS
June 30

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and investments	\$ 756,992	\$ 655,500
Interest receivable	2,863	832
Other receivable	-	100
Total assets	<u>\$ 759,855</u>	<u>\$ 656,432</u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 2,940	\$ 5,403
Accrued salaries and benefits	-	2,544
Due to PCLRF	2,165	-
Total liabilities	<u>5,105</u>	<u>7,947</u>
 Fund Balance		
Restricted	<u>754,750</u>	<u>648,485</u>
Total fund balance	<u>754,750</u>	<u>648,485</u>
Total liabilities and fund balance	<u>\$ 759,855</u>	<u>\$ 656,432</u>

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

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

	2018	2017
REVENUES		
Proposition A	\$ 485,507	\$ 477,606
Proposition A Discretionary Incentive Grant (Note 5)	13,049	10,452
Interest income	10,644	10,363
Unrealized loss on investments	(8,468)	(9,625)
Project generated revenue (Note 6)	4,956	4,403
Sale of vehicle (Note 7)	1,238	-
Total revenues	506,926	493,199
EXPENDITURES		
Various projects	400,661	543,118
Total expenditures	400,661	543,118
Excess (deficiency) of revenues over (under) expenditures	106,265	(49,919)
Fund balance at beginning of year	648,485	698,404
Fund balance at end of year	\$ 754,750	\$ 648,485

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

CITY OF SOUTH PASADENA
PROPOSITION A LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES
ACTUAL AND METRO APPROVED PROJECT BUDGET
For the Fiscal Year Ended June 30, 2018
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2017)

Project Code	Project Name	2018		Variance Favorable (Unfavorable)	2017 Actual
		Metro Budget	Actual		
130-01	Transit Software	\$ -	\$ -	\$ -	\$ 35,034
130-05	Senior Dial-A-Ride Program	298,749	182,182	116,567	221,210
140-01	Recreational Transit Service	32,260	33,149	(889)	29,527
150-01	Bus Stop Improvement Program	90,000	65,938	24,062	15,528
150-02	Mission Street Business District Pedestrian Improvement Project	-	-	-	30,929
180-01	Purchase Paratransit Van	-	-	-	133,924
250-03	Bus Pass Subsidy Program	10,000	3,081	6,919	6,910
270-01	Transit Planning	71,031	65,835	5,196	53,826
290-01	Mission-Meridian Park and Ride Lot	20,762	20,121	641	-
290-02	Park and Ride Lot Parking Pass Machine	13,000	12,997	3	-
480-01	Proposition A Administration	14,312	17,358	(3,046)	16,230
Total expenditures		\$ 550,114	\$ 400,661	\$ 149,453	\$ 543,118

See accompanying independent auditor's report.

CITY OF SOUTH PASADENA
PROPOSITION A LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
June 30, 2018

Date Acquired	Description	Balance 7/1/2017	Additions	Deletions	Balance 6/30/2018
1977	WAS Memorial Building Park	\$ 108,861	\$ -	\$ -	\$ 108,861
2003	Chevy Van with Wheelchair	37,644	-	37,644	-
2014	CNG Deluxe Passenger Vehicle	59,100	-	-	59,100
2016	Transit Demand Response Transportation Management System	28,194	-	-	28,194
2016	2016 Ford E450 Cutaway CNG Passenger Van	88,762	-	-	88,762
2017	2016 Phoenix Zeus Electric Passenger Bus	114,501	-	-	114,501
2017	Clipper Creek CS-100 PEV Charger	16,450	-	-	16,450
2018	Meridian Parking Garage Vending Machine	-	12,997	-	12,997
Total		<u>\$ 453,512</u>	<u>\$ 12,997</u>	<u>\$ 37,644</u>	<u>\$ 428,865</u>

See accompanying independent auditor's report.

CITY OF SOUTH PASADENA
PROPOSITION C LOCAL RETURN FUND
BALANCE SHEETS
June 30

	2018	2017
ASSETS		
Cash and investments	\$ 462,870	\$ 736,017
Interest receivable	1,595	726
Due from PALRF	2,165	-
Total assets	\$ 466,630	\$ 736,743
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 2,626	\$ -
Accrued salaries and benefits	-	2,248
Total liabilities	2,626	2,248
 Fund Balance		
Restricted	464,004	734,495
Total fund balance	464,004	734,495
Total liabilities and fund balance	\$ 466,630	\$ 736,743

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

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

	<u>2018</u>	<u>2017</u>
REVENUES		
Proposition C	\$ 403,270	\$ 395,586
Interest income	9,035	8,049
Unrealized loss on investments	(7,399)	(7,420)
Parking revenue (Note 8)	<u>34,387</u>	<u>37,508</u>
Total revenues	<u>439,293</u>	<u>433,723</u>
 EXPENDITURES		
Various projects	<u>709,784</u>	<u>167,700</u>
Total expenditures	<u>709,784</u>	<u>167,700</u>
 (Deficiency) excess of revenues (under) over expenditures	 (270,491)	 266,023
 Fund balance at beginning of year	 <u>734,495</u>	 <u>468,472</u>
 Fund balance at end of year	 <u>\$ 464,004</u>	 <u>\$ 734,495</u>

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

CITY OF SOUTH PASADENA
PROPOSITION C LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES
ACTUAL AND METRO APPROVED PROJECT BUDGET
For the Fiscal Year Ended June 30, 2018
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2017)

Project Code	Project Name	2018		Variance	2017 Actual
		Metro Budget	Actual	Favorable (Unfavorable)	
130-05	Senior Dial-A-Ride	\$ 230,793	\$ 205,517	\$ 25,276	\$ 160,779
150-01	Bus Stop Improvement Program	90,000	-	90,000	-
180-01	Purchase Paratransit Van	80,000	-	80,000	-
180-02	CNG Full Station Upgrade	80,000	-	80,000	-
430-01	South Pasadena Business District Pedestrian Improvement Project	50,000	496,610	(446,610) *	-
480-01	Proposition C Administration	6,635	7,657	(1,022)	6,921
Total expenditures		\$ 537,428	\$ 709,784	\$ (172,356)	\$ 167,700

* This is a capital project.

See accompanying independent auditor's report.

CITY OF SOUTH PASADENA
PROPOSITION C LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
June 30, 2018

Date Acquired	Description	Balance 7/1/2017	Additions	Deletions	Balance 6/30/2018
2005	Engineering Svd Pavement Management	\$ 21,312	\$ -	\$ 21,312	\$ -
2012	Transit Dispatching Equipment and Software	13,834	-	13,834	-
2012	MV-1 CNG Vehicle	51,721	-	-	51,721
2015	Mission Street Improvements	81,089	-	-	81,089
2016	CNG Ford F250 Regular Cab Truck	33,985	-	-	33,985
Total		\$ 201,941	\$ -	\$ 35,146	\$ 166,795

See accompanying independent auditor's report.

CITY OF SOUTH PASADENA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The operations of the Proposition A Local Return Fund (PALRF) and Proposition C Local Return Fund (PCLRF) (collectively, the Funds) are accounted for in separate sets of self-balancing accounts that comprise their assets, liabilities, fund balance, revenues and expenditures.

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

Basis of Accounting and Measurement Focus

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

Special Revenue Funds are reported on spending or “financial flow” measurement focus. This means that generally only current assets, current liabilities and deferred inflows and outflows of resources are included on their balance sheets. Statement of revenue, expenditures and changes in fund balance for Special Revenue Funds generally present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Budgets and Budgetary Accounting

The budgeted amounts presented in this report for comparison to the actual amounts are presented in accordance with accounting principles generally accepted in the United States of America.

Fair Value Measurement

In accordance with Government Accounting Standard Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, which became effective for the fiscal year ended June 30, 2016, the City categorizes its fair value measurement within the fair value hierarchy that is based on the valuation inputs used to measure the fair value of the investment. Level 1 inputs are quoted prices in active markets for identical investments; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Accordingly, the City reports its investment at fair value and recognizes unrealized gain (loss) on investments.

Refer to City’s 2018 Comprehensive Annual Financial Report for detailed disclosures regarding the City’s investments policy and fair value measurement.

CITY OF SOUTH PASADENA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2018 and 2017
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Reporting

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

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

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

Information regarding the fund balance reporting policy adopted by the City is described in Note 1 to the City's Comprehensive Annual Financial Report.

NOTE 2 – ANNUAL FINANCIAL STATEMENTS

The financial statements reflect only the financial position and results of operations of the PALRF and PCLRF and their compliance with the Proposition A and Proposition C Local Return Program Guidelines.

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

In accordance with Proposition A and Proposition C Local Return Program Guidelines, funds received pursuant to these guidelines may only be used for Proposition A and Proposition C Local Return approved programs. See accompanying Compliance Matrix.

NOTE 4 – CASH AND INVESTMENTS

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

CITY OF SOUTH PASADENA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2018 and 2017
(Continued)

NOTE 5 – PROPOSITION A DISCRETIONARY INCENTIVE GRANT - PALRF

The City entered into various Memorandum of Understanding (MOU) agreement with Metro to receive Proposition A Discretionary Incentive Grant for participating in the Consolidated National Transit Database (NTD) Voluntary Reporting. The amounts received for the years ended June 30, 2018 and 2017 consisted of the following:

Agreement Date	Period	NTD Voluntary Reporting	MOU Amount	Amount Received	
				2018	2017
July 31, 2017	7/1/17 - 6/30/19	FY 2014-15	\$ 13,049	\$ 13,049	\$ -
May 21, 2016	7/1/15 - 6/30/17	FY 2013-14	\$ 10,452	-	10,452
		Total	\$	<u>13,049</u>	<u>10,452</u>

The Proposition A Discretionary Incentive Grants were recorded under PALRF.

NOTE 6 – PROJECT GENERATED REVENUE - PALRF

Project generated revenue for the years ended June 30, 2018 and 2017 consisted of the following:

	2018	2017
Dial-A-Ride Charges	\$ 4,956	\$ 4,403
Total	<u>\$ 4,956</u>	<u>\$ 4,403</u>

NOTE 7 – SALE OF VEHICLE - PALRF

On August 28, 2017, the City sold a Chevy van at an auction for \$1,238. The proceeds were recorded under PALRF for the fiscal year ended June 30, 2018.

NOTE 8 – PARKING REVENUE - PCLRF

The City entered a Paid Parking at Mission-Meridian Village Garage professional service agreement with Clancy International, Inc. to operate the permit program. The City received parking revenues of \$34,387 and \$37,508 for the years ended June 30, 2018 and June 30, 2017, respectively.

CITY OF SOUTH PASADENA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2018 and 2017
(Continued)

NOTE 9 – CONTINGENCIES

The City, as a member of the Mission-Meridian Village Property Owners Association (POA) is obligated to make payments to the POA in the form of dues and utilities for the City's portion as stipulated in the Covenants, Conditions and Restrictions (CC&Rs) and the annual adopted budget. A portion of the payments are charged to Proposition C for parking spaces made available to Proposition C project vehicles.

On December 8, 2015, the City sent a letter to the POA in an attempt to correct what the City believed to be the accurate amounts that the City is obligated to pay. The City believed that it has established the amount based on its staff and council review of the CC&Rs and available billing documentation provided by POA. On December 4, 2018, the City sent a final letter to Cardinal Management Group, the new management company of POA, detailing the issues and proposed a global settlement to include: a) a zeroing of both accounts (as each side of the dispute claims the other owes in excess of \$50,000); b) reimbursement by the City to POA for the City's actual electric costs of the MMV Parking Garage; and c) POA adherence to the strict terms of the CC&Rs going forward. The City has not yet received a substantive response from the POA.

As of June 30, 2018, the POA parking charge statement presented an accumulated balance due from the City in the amount of \$201,873. Although the City is disputing the accuracy of the dues and utilities calculation provided by the POA, there is a chance that the City will be liable to pay a portion or the entire outstanding amount of \$201,873 to the POA utilizing PCLRF monies. Colantuono, Highsmith, Whatley PC, the legal counsel of the City, believed that even though the dispute involves over \$50,000, it has not yet ripened into a claim of lawsuit and is presently being handled administratively by the City staff with legal support of its firm.

NOTE 10 – SUBSEQUENT EVENTS

The City has evaluated events or transactions that occurred subsequent to June 30, 2018 through December 27, 2018, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined no subsequent matters require disclosure or adjustment to the accompanying financial statements.



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**Independent Auditor’s Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Proposition A Local Return Fund and Proposition C Local Return Fund (collectively, the Funds) of the City of South Pasadena, California (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated December 27, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the Funds’ financial statements, we considered the City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Funds’ financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

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

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



Compliance and Other Matters

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

Purpose of this Report

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

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

Los Angeles, California
December 27, 2018

COMPLIANCE SECTION



SIMPSON & SIMPSON

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Independent Auditor's Report on Compliance

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

Report on Compliance

We have audited the compliance of the City of South Pasadena, California (the City) with the Proposition A and Proposition C Local Return Guidelines (collectively, the Guidelines) for the year ended June 30, 2018.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on the City's compliance based on our audit. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Guidelines referred to in the preceding paragraph. Those standards and the Guidelines require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on Proposition A Local Return Program and Proposition C Local Return Program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Proposition A Local Return Fund and Proposition C Local Return Fund

In our opinion, except as noted in the Compliance Matrix and the Schedule of Findings and Recommendations, the City complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2018.



Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Guidelines and which are described in the accompanying Schedule of Findings and Recommendations as Finding Nos. 2018-001 and 2018-002. Our opinion on Proposition A and Proposition C local return program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the Guidelines referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Recommendations as Finding No. 2018-001.

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



The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guidelines. Accordingly, this report is not suitable for any other purpose.

Simpson & Simpson

Los Angeles, California
December 27, 2018

CITY OF SOUTH PASADENA
COMPLIANCE MATRIX
Year Ended June 30, 2018

Compliance Requirement		In Compliance			Questioned Costs	If no, provide details and management response.
		Yes	No	N/A		
A. Proposition A and Proposition C Local Return Funds						
1.	Uses the State Controller's Uniform System of Accounts and Records.	X			None	
2.	Timely use of funds.	X			None	
3.	Funds expended were approved and have not been substituted for property tax.	X			None	
4.	Expenditures that exceeded 25% of approved project budget have approved amended project Description Form (Form A).	X			None	
5.	Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	X			None	
6.	All on-going and carryover projects were reported in Form B.	X			None	
7.	Annual Project Summary Report (Form B) was submitted on time.		X		None	See Finding No. 2018-001 in the Summary of Findings and Recommendations.
8.	Annual Expenditure Report (Form C) was submitted on time.	X			None	
9.	Cash or cash equivalents are maintained.	X			None	
10.	Accounting procedures, record keeping and documentation are adequate.		X		None	See Finding Nos. 2018-002 in the Summary of Findings and Recommendations.
11.	Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	X			None	
12.	Local Return Account is credited for reimbursable expenditures.	X			None	
13.	Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.			X	None	
14.	Assurances and Understandings form was on file.	X			None	
15.	Recreational transit form was submitted on time.	X			None	

CITY OF SOUTH PASADENA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
 June 30, 2018

PALRF and PCLRF: Finding No. 2018-001

Compliance Reference	According to Proposition A & Proposition C Guidelines, Section I (C), "Jurisdictions shall submit on or before August 1 of each fiscal year an Annual Project Update to provide current information on all approved on-going and carryover LR projects."
Condition	The City did not meet the August 1, 2017 deadline for submission of the Annual Project Update (Form B). However, the City submitted the Form B on August 8, 2017. This is a repeat finding from the prior year.
Cause	Due to staff vacancies during the fiscal year, Form B was not submitted by the due date.
Effect	The City's Form B was not submitted timely.
Recommendation	We recommend that the City establish procedures to ensure that the Form B is properly prepared and submitted before the due date of August 1st so that the City's expenditures of the Proposition A and Proposition C Local Return Funds will be in accordance with LACMTA's approval and the guidelines. Furthermore, we recommend the City to retain a confirmation of receipt by LACMTA to indicate the form was submitted on a timely manner.
Management's Response	Currently, the City's Finance Department is adequately staffed and will be compliant for all future audits.
Finding Corrected During the Audit	The City subsequently submitted the Form B on August 8, 2017. No follow up is required.

CITY OF SOUTH PASADENA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
 June 30, 2018
 (Continued)

PALRF and PCLRF: Finding No. 2018-002

Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, Section II, “A proposed expenditure of funds shall be deemed to be for public transit purposes to the extent that it can reasonably be expected to sustain or improve the quality and safety of and/or access to public transit services by the general public or those requiring special public transit assistance” and Section V, “It is jurisdictions’ responsibility to maintain proper accounting records and documentation...”
Condition	<p>To support the propriety of expenditures being charged to the PALRF and PCLRF, non-payroll expenditures should be supported by properly executed contracts, invoices, and payment vouchers. Although payments to vendors were allowable and were properly supported by invoices and cancelled checks, the expenditures for Senior Dial-A-Ride Program Project Code 130-05 were not supported by an existing contract or purchase order form for the following vendors:</p> <ul style="list-style-type: none"> a) A payment to Ellen’s Silkscreening in the amount of \$597 charged under PALRF; b) Two (2) payments made to Jack’s Auto Repair in the total amount of \$6,074 charged under PCLRF; c) A payment made to Hall’s Auto Tech Center in the amount of \$1,960 charged under PCLRF; and d) A payment made to Cantu Graphics in the amount of \$1,202 charged under PCLRF.
Cause	The payments were made to what the City considered as “preferred” vendors and no purchase orders were used during this time.
Effect	No contract or purchase order form to support the payments made to the vendors indicates a weakness in the City’s internal control.
Recommendation	We recommend that the City establish controls to ensure that the costs charged to the Local Return Funds, although allowable, are adequately supported by contracts, purchase orders, invoices, canceled checks or similar documentation so that Local Return expenditures are in compliance with the Guidelines.
Management’s Response	Going forward, the City will comply with its purchasing policy and will prepare the Purchase Orders when required.

EXIT CONFERENCE

CITY OF SOUTH PASADENA
PROPOSITION A LOCAL RETURN FUND AND PROPOSITION C LOCAL RETURN FUND
EXIT CONFERENCE
June 30, 2018

An exit conference was held on January 2, 2019 with the City of South Pasadena. Those in attendance were:

Simpson & Simpson Representative:

Elizabeth Mendoza, Senior Auditor

City's Representative:

Craig Koehler, Finance Director

Matters Discussed:

Results of the audit disclosed one (1) significant control deficiency and two (2) non-compliance issues with Metro Guidelines.

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

Craig Koehler, Finance Director

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

RE: CITY OF SOUTH PASADENA ANNUAL FINANCIAL REPORT OF THE PROPOSITION A
LOCAL RETURN FUND AND PROPOSITION C LOCAL RETURN FUND FOR THE FISCAL
YEARS ENDED JUNE 30, 2018 AND 2017

I have received the annual financial report of the Proposition A Local Return Fund and Proposition C Local Return Fund for the years ended June 30, 2018 and 2017, and agree with the contents of the report except as indicated below:

(Attach additional pages if necessary)

Very truly yours,

Name

Title

Date