

***CITY OF TORRANCE
ANNUAL FINANCIAL REPORT OF THE
PROPOSITION A LOCAL RETURN FUND
PROPOSITION C LOCAL RETURN FUND
MEASURE R LOCAL RETURN FUND
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 3 FUND
FOR THE FISCAL YEARS ENDED
JUNE 30, 2018 AND 2017

AND MEASURE M LOCAL RETURN FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018***



Metro[®]



Simpson & Simpson, LLP
Certified Public Accountants

CITY OF TORRANCE
TABLE OF CONTENTS

| FINANCIAL SECTION | PAGE |
|---|-------------|
| Independent Auditor's Report | 1 |
| Proposition A Local Return Fund: | |
| Financial Statements: | |
| Balance Sheets | 3 |
| Statements of Revenues, Expenditures and Changes in Fund Balance | 4 |
| Supplementary Information: | |
| Schedule of Expenditures – Actual and Metro Approved Project Budget | 5 |
| Schedule of Capital Assets | 6 |
| Proposition C Local Return Fund: | |
| Financial Statements: | |
| Balance Sheets | 7 |
| Statements of Revenues, Expenditures and Changes in Fund Balance | 8 |
| Supplementary Information: | |
| Schedule of Expenditures – Actual and Metro Approved Project Budget | 9 |
| Schedule of Capital Assets | 10 |
| Measure R Local Return Fund: | |
| Financial Statements: | |
| Balance Sheets | 11 |
| Statements of Revenues, Expenditures and Changes in Fund Balance | 12 |
| Supplementary Information: | |
| Schedule of Expenditures – Actual and Metro Approved Project Budget | 13 |
| Schedule of Capital Assets | 14 |
| Measure M Local Return Fund: | |
| Financial Statements: | |
| Balance Sheet | 15 |
| Statement of Revenues, Expenditures and Change in Fund Balance | 16 |
| Supplementary Information: | |
| Schedule of Expenditures – Actual and Metro Approved Project Budget | 17 |
| Schedule of Capital Assets | 18 |
| Transportation Development Act Article 3 Fund: | |
| Financial Statements: | |
| Balance Sheets | 19 |
| Statements of Revenues, Expenditures and Changes in Fund Balance | 20 |
| Supplementary Information: | |
| Schedule of Transportation Development Act Allocation for Specific Projects | 21 |
| Notes to Financial Statements | 22 |
| 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 <i>Government Auditing Standards</i> | 26 |

CITY OF TORRANCE
TABLE OF CONTENTS
(Continued)

COMPLIANCE SECTION

| | |
|--|----|
| Independent Auditor's Report on Compliance | 28 |
| Compliance Matrix | 30 |
| Schedule of Findings and Recommendations | 34 |

| | |
|------------------------|----|
| EXIT CONFERENCE | 36 |
|------------------------|----|

FINANCIAL SECTION



SIMPSON & SIMPSON

CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS

BRAINARD C. SIMPSON, CPA

MELBA W. SIMPSON, CPA

U.S. BANK TOWER
633 WEST 5TH STREET, SUITE 3320
LOS ANGELES, CA 90071
(213) 736-6664 TELEPHONE
(213) 736-6692 FAX
www.simpsonandsimpsoncpas.com

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Proposition A Local Return Fund (PALRF), Proposition C Local Return Fund (PCLRF), Measure R Local Return Fund (MRLRF), and Transportation Development Act Article 3 Fund (TDAA3F) (collectively, the Funds), of the City of Torrance, California (the City) as of and for the years ended June 30, 2018 and 2017, and Measure M Local Return Fund (MMLRF) (the Fund) of the City of Torrance, California (the City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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, PCLRF, MRLRF and TDAA3F of the City of Torrance, California, as of June 30, 2018 and 2017, and MMLRF of the City of Torrance, California, as of June 30, 2018, and the respective changes in their financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the PALRF, PCLRF, MRLRF, MMLRF and TDAA3F of the City and do not purport to, and do not, present fairly the financial position of the City of Torrance, California, as of June 30, 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 28, 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 28, 2018

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

| | 2018 | 2017 |
|---|--------------|--------------|
| ASSETS | | |
| Cash and investments | \$ 1,623,310 | \$ 1,528,042 |
| Interest receivable | 3,543 | 2,392 |
| Total assets | \$ 1,626,853 | \$ 1,530,434 |
| LIABILITIES AND FUND BALANCE | | |
| Liabilities | | |
| Accounts payable | \$ - | \$ - |
| Total liabilities | - | - |
| Fund Balance | | |
| Restricted | 1,626,853 | 1,530,434 |
| Total fund balance | 1,626,853 | 1,530,434 |
| Total liabilities and fund balance | \$ 1,626,853 | \$ 1,530,434 |

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

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

| | 2018 | 2017 |
|--------------------------------------|--------------|--------------|
| REVENUES | | |
| Proposition A | \$ 2,745,295 | \$ 2,708,400 |
| Interest income | 25,447 | 18,556 |
| Total revenues | 2,770,742 | 2,726,956 |
| EXPENDITURES | | |
| Various projects | 2,674,323 | 2,674,323 |
| Total expenditures | 2,674,323 | 2,674,323 |
| Excess of revenues over expenditures | 96,419 | 52,633 |
| Fund balance at beginning of year | 1,530,434 | 1,477,801 |
| Fund balance at end of year | \$ 1,626,853 | \$ 1,530,434 |

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

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

| Project Code | Project Name | 2018 | | | 2017 Actual |
|--------------|---|---------------------|---------------------|----------------------------------|---------------------|
| | | Metro Budget | Actual | Variance Favorable (Unfavorable) | |
| 110-01 | Fixed Route Operating Assistance | \$ 1,475,458 | \$ 1,552,314 | \$ (76,856) | \$ 1,637,622 |
| 130-01 | Dial-A-Lift Operating Assistance | 180,000 | 180,000 | - | 180,000 |
| 240-01 | Senior Ride Program | 650,000 | 553,931 | 96,069 | 447,295 |
| 405-08 | Admin Charges Associated with Fixed Route | 368,865 | 388,078 | (19,213) | 409,406 |
| | Total expenditures | \$ <u>2,674,323</u> | \$ <u>2,674,323</u> | \$ <u>-</u> | \$ <u>2,674,323</u> |

See accompanying independent auditor's report.

CITY OF TORRANCE
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 |
|------------------|----------------------------|---------------------|-------------|-------------|----------------------|
| Various | Transit Building Facility | \$ 1,458,361 | \$ - | \$ - | \$ 1,458,361 |
| 9/11 | New Flyer Buses | 595,562 | - | - | 595,562 |
| 6/13 | Other Equipment | 52,354 | - | - | 52,354 |
| 6/14 | Bus Wash and Vacuum System | 182,823 | - | - | 182,823 |
| | Total \$ | <u>2,289,100</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,289,100</u> |

See accompanying independent auditor's report.

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

| | 2018 | 2017 |
|---|--------------|--------------|
| ASSETS | | |
| Cash and investments | \$ 6,432,404 | \$ 5,458,709 |
| Interest receivable | 14,038 | 8,545 |
| Total assets | \$ 6,446,442 | \$ 5,467,254 |
| LIABILITIES AND FUND BALANCE | | |
| Liabilities | | |
| Accounts payable | \$ 26,066 | \$ 206,019 |
| Accrued payroll | 1,601 | 131 |
| Total liabilities | 27,667 | 206,150 |
| Fund Balance | | |
| Restricted | 6,418,775 | 5,261,104 |
| Total fund balance | 6,418,775 | 5,261,104 |
| Total liabilities and fund balance | \$ 6,446,442 | \$ 5,467,254 |

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

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

| | 2018 | 2017 |
|--------------------------------------|--------------|--------------|
| REVENUES | | |
| Proposition C | \$ 2,279,041 | \$ 2,244,535 |
| Interest income | 93,051 | 61,260 |
| Total revenues | 2,372,092 | 2,305,795 |
| EXPENDITURES | | |
| Various projects | 1,214,421 | 1,479,871 |
| Total expenditures | 1,214,421 | 1,479,871 |
| Excess of revenues over expenditures | 1,157,671 | 825,924 |
| Fund balance at beginning of year | 5,261,104 | 4,435,180 |
| Fund balance at end of year | \$ 6,418,775 | \$ 5,261,104 |

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

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

| Project Code | Project Name | 2018 | | | 2017 Actual |
|--------------------|--|---------------------|---------------------|----------------------------------|---------------------|
| | | Metro Budget | Actual | Variance Favorable (Unfavorable) | |
| 110-01 | Fixed Route Operating Assistance | \$ 1,114,000 | \$ - | \$ 1,114,000 | \$ - |
| 210-01 | Citywide Traffic Analysis T 171 | 187,500 | 17,450 | 170,050 | - |
| 260-05 | Rideshare Incentive Program | 187,755 | 115,102 | 72,653 | 107,188 |
| 270-01 | Citywide Traffic Analysis T 167 | 511,000 | 345,691 | 165,309 | - |
| 440-01 | Palos Verdes Boulevard Rehabilitation, I-121 (Pacific Coast Highway to South City Limit) | - | - | - | 704 |
| 440-01 | Crenshaw Blvd Pavement Rehab. - Phases 1, 2, I-121 | 28 | 28 | - | - |
| 440-02 | Pacific Coast Highway Improvements, I-333 | 2,159 | 2,159 | - | 446,070 |
| 440-16 | Hawthorne Blvd. Rehabilitation T-45 | 42,739 | 2,072 | 40,667 | - |
| 440-20 | Torrance Arterial Street Maintenance | 170,000 | 170,000 | - | 170,000 |
| 440-21 | Crenshaw Blvd. Rehabilitation I-120 | 94,092 | 93,800 | 292 | 755,909 |
| 440-22 | Arterial Street Pavement Sealing Program, I-139 | 1,114,000 | 468,119 | 645,881 | - |
| Total expenditures | | \$ <u>3,423,273</u> | \$ <u>1,214,421</u> | \$ <u>2,208,852</u> | \$ <u>1,479,871</u> |

See accompanying independent auditor's report.

CITY OF TORRANCE
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 |
|------------------|----------------------|---------------------|-----------|-----------|----------------------|
| 6/03 | 5 Ford Taurus Sedans | \$ 44,690 | \$ - | \$ - | \$ 44,690 |
| | Total | \$ 44,690 | \$ - | \$ - | \$ 44,690 |

See accompanying independent auditor's report.

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

| | 2018 | 2017 |
|---|--------------|--------------|
| ASSETS | | |
| Cash and investments | \$ 5,083,215 | \$ 5,045,655 |
| Interest receivable | 11,093 | 7,898 |
| Total assets | \$ 5,094,308 | \$ 5,053,553 |
| LIABILITIES AND FUND BALANCE | | |
| Liabilities | | |
| Accounts payable | \$ 93,608 | \$ 12,483 |
| Accrued payroll | 2,335 | - |
| Total liabilities | 95,943 | 12,483 |
| Fund Balance | | |
| Restricted | 4,998,365 | 5,041,070 |
| Total fund balance | 4,998,365 | 5,041,070 |
| Total liabilities and fund balance | \$ 5,094,308 | \$ 5,053,553 |

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

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

| | 2018 | 2017 |
|---|--------------|--------------|
| REVENUES | | |
| Measure R | \$ 1,705,560 | \$ 1,685,317 |
| Interest income | 78,289 | 59,071 |
| Total revenues | 1,783,849 | 1,744,388 |
| EXPENDITURES | | |
| Various projects | 1,826,554 | 1,602,770 |
| Total expenditures | 1,826,554 | 1,602,770 |
| (Deficiency) excess of revenues (under) over expenditures | (42,705) | 141,618 |
| Fund balance at beginning of year | 5,041,070 | 4,899,452 |
| Fund balance at end of year | \$ 4,998,365 | \$ 5,041,070 |

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

CITY OF TORRANCE
MEASURE R LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES
ACTUAL AND METRO APPROVED PROJECT BUDGET
For the Fiscal Year Ended June 30, 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) | |
| 1.05 | I-120, Crenshaw Boulevard Rehabilitation | \$ 170,796 | \$ 73,410 | \$ 97,386 | \$ 339,601 |
| 1.05 | I-122 Madison And Skypark Rehabilitation | - | - | - | 95,697 |
| 1.05 | I-139, Arterial Street Pavement Sealing Program | 2,194,474 | 969,957 | 1,224,517 | 1,058,186 |
| 1.05 | I-147 Crenshaw Blvd Rehabilitation (182nd to North City Limit) | 1,113,000 | - | 1,113,000 | - |
| 1.05 | I-159, Residential Slurry Seal Program | 1,961,534 | 4,034 | 1,957,500 | 34,088 |
| 2.02 | T-128, Traffic Signal Left Turn Phasing Upgrades at Various Locations | 318,495 | 9,701 | 308,794 | - |
| 2.03 | T-167 Citywide Traffic Analysis | 219,000 | 57,397 | 161,603 | - |
| 2.03 | T-171 Citywide Traffic Signal Improvement | 187,500 | 15,666 | 171,834 | - |
| 2.04 | T-146 Intelligence Transportation System (ITS) and Signal Improvement | 81,234 | 34,129 | 47,105 | 75,198 |
| 3.20 | I-140, 186th Street Improvements at Columbia Park | 680,924 | 662,260 | 18,664 | - |
| | Total expenditures | \$ <u>6,926,957</u> | \$ <u>1,826,554</u> | \$ <u>5,100,403</u> | \$ <u>1,602,770</u> |

See accompanying independent auditor's report.

CITY OF TORRANCE
MEASURE R LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
 June 30, 2018

| <u>Date Acquired</u> | <u>Description</u> | <u>Balance 7/1/2017</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 6/30/2018</u> |
|--------------------------|--------------------|-----------------------------|------------------|------------------|------------------------------|
| None | | \$ - | \$ - | \$ - | \$ - |
| | Total | \$ - | \$ - | \$ - | \$ - |

See accompanying independent auditor's report.

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

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

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

CITY OF TORRANCE
MEASURE M LOCAL RETURN FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE
For the Fiscal Year Ended June 30

| | | 2018 |
|--------------------------------------|----|-----------|
| REVENUES | | |
| Measure M | \$ | 1,545,628 |
| Interest income | | 12,919 |
| Total revenues | | 1,558,547 |
| EXPENDITURES | | |
| Various projects | | - |
| Total expenditures | | - |
| Excess of revenues over expenditures | | 1,558,547 |
| Fund balance at beginning of year | | - |
| Fund balance at end of year | \$ | 1,558,547 |

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

CITY OF TORRANCE
MEASURE M LOCAL RETURN FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES
ACTUAL AND METRO APPROVED PROJECT BUDGET
For the Fiscal Year Ended June 30, 2018

| Project Code | Project Name | 2018 | | Variance Favorable (Unfavorable) |
|-----------------|--------------------|-----------------|--------|--|
| | | Metro Budget | Actual | |
| None | | \$ - | \$ - | \$ - |
| | Total expenditures | \$ - | \$ - | \$ - |

See accompanying independent auditor's report.

CITY OF TORRANCE
MEASURE M 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 |
|------------------|-------------|---------------------|-----------|-----------|----------------------|
| None | | \$ - | \$ - | \$ - | \$ - |
| | Total | \$ - | \$ - | \$ - | \$ - |

See accompanying independent auditor's report.

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

| | 2018 | 2017 |
|---|--------|------|
| ASSETS | | |
| Cash and investments | \$ 956 | \$ - |
| Total assets | \$ 956 | \$ - |
| LIABILITIES AND FUND BALANCE | | |
| Liabilities | | |
| Accounts payable | \$ - | \$ - |
| Total liabilities | - | - |
| Fund Balance | | |
| Restricted | 956 | - |
| Total fund balance | 956 | - |
| Total liabilities and fund balance | \$ 956 | \$ - |

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

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

| | 2018 | 2017 |
|--|--------|--------|
| REVENUES | | |
| Interest income | \$ 956 | \$ 250 |
| TDA 3 | 98,333 | - |
| Total revenues | 99,289 | 250 |
| EXPENDITURES | | |
| Sidewalk Repair for Handicap Accessibility | 98,333 | 250 |
| Total expenditures | 98,333 | 250 |
| Excess of revenues over expenditures | 956 | - |
| Fund balance at beginning of year | - | - |
| Fund balance at end of year | \$ 956 | \$ - |

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

CITY OF TORRANCE
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF TRANSPORTATION DEVELOPMENT ACT
ALLOCATION FOR SPECIFIC PROJECTS
For the Fiscal Year Ended June 30, 2018

| <u>Project Description</u> | <u>Program Year</u> | <u>Allocations</u> | <u>Expenditures</u> | <u>Unexpended Allocations</u> | <u>Project Status</u> |
|--|-------------------------|--------------------|---------------------|-----------------------------------|---------------------------|
| Local allocations | | | | | |
| Sidewalk Repair for Handicap Accessibility | 2017-18 | \$ <u>98,333</u> | \$ <u>98,333</u> | \$ - | Ongoing |
| | Total | \$ <u>98,333</u> | \$ <u>98,333</u> | - | |
| Unexpended interest accumulated to date | | | | 956 | |
| Fund balance at beginning of year | | | | - | |
| Fund balance at end of year | | | | \$ <u>956</u> | |

See accompanying independent auditor's report.

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

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

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

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

TDAA3F is a Special Revenue Fund that accounts for the City’s share of the Transportation Development Act Article 3 allocations which are legally restricted for specific purposes.

Basis of Accounting and Measurement Focus

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

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

Budgets and Budgetary Accounting

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurement

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

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

Fund Balance Reporting

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

The PALRF, PCLRF, MRLRF, MMLRF and TDAA3F report the following fund balance 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, PCLRF, MRLRF, MMLRF and TDAA3F and their compliance with the Proposition A and Proposition C Local Return Program Guidelines, Measure R Local Return Program Guidelines, Measure M Local Return Program Guidelines and Transportation Development Act Article 3 and the Los Angeles County Metropolitan Transportation Authority Funding and Allocation Guidelines for Transportation Development Act Article 3 Bicycle and Pedestrian Funds.

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

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

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

NOTE 4 – MEASURE R LOCAL RETURN COMPLIANCE REQUIREMENTS

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

NOTE 5 – MEASURE M LOCAL RETURN COMPLIANCE REQUIREMENTS

On June 23, 2016, the Metro Board of Directors approved the Los Angeles County Traffic Improvement Plan Ordinance, known as Measure M. In accordance with Measure M Local Return Program Guidelines, funds received pursuant to these guidelines may only be used for Measure M Local Return approved programs. The first revenue allocation was received in the current period. See accompanying Compliance Matrix.

NOTE 6 – TRANSPORTATION DEVELOPMENT ACT COMPLIANCE REQUIREMENTS

In accordance with Public Utilities Code Section 99234, funds received pursuant to this Code's section may only be used for activities relating to pedestrians and bicycle facilities. See accompanying Compliance Matrix.

NOTE 7 – CASH AND INVESTMENTS

The PALRF, PCLRF, MRLRF, MMLRF and TDAA3F's cash and investment balances were pooled with various other City funds for deposit and investment purposes. The share of each fund in the pooled cash and investments account was separately maintained and interest income was apportioned to the participating funds based on the relationship of their average quarterly balances to the total of the pooled cash and investments.

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

NOTE 8 – TRANSPORTATION DEVELOPMENT ACT FUND REVENUE ALLOCATION

The revenue allocation for the years ended June 30, 2018 and 2017 consisted of the following:

| | 2018 | 2017 |
|-------------------------|-----------|------|
| FY 2016-17 allocation | \$ 98,333 | \$ - |
| Total payment requested | \$ 98,333 | \$ - |

NOTE 9 – TRANSPORTATION DEVELOPMENT ACT FUNDS RESERVED

In accordance with TDA Article 3 (SB821) Guidelines, funds not spent during the fiscal year have been placed on reserve in the Local Transportation Fund (LTF) account with the County Auditor-Controller to be drawn down whenever the funds become eligible for a specific project and an approved drawdown request is received by Metro. As of June 30, 2018, and 2017, the City has funds on reserve as follows:

| | 2018 | 2017 |
|---------------------------|-----------|-----------|
| FY 2016-17 allocation | \$ - | \$ 98,333 |
| FY 2017-18 allocation | 95,834 | - |
| Available reserve balance | \$ 95,834 | \$ 98,333 |

NOTE 10 – SUBSEQUENT EVENTS

The City has evaluated events or transactions that occurred subsequent to June 30, 2018 through December 28, 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.



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS
FOUNDING PARTNERS
BRAINARD C. SIMPSON, CPA
MELBA W. SIMPSON, CPA

U.S. BANK TOWER
633 WEST 5TH STREET, SUITE 3320
LOS ANGELES, CA 90071
(213) 736-6664 TELEPHONE
(213) 736-6692 FAX
www.simpsonandsimpsoncpas.com

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, Measure M Local Return Fund, and Transportation Development Act Article 3 Fund (collectively, the Funds) of the City of Torrance, California (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated December 28, 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, Proposition C Local Return Fund, Measure R Local Return Fund, Measure M Local Return Fund and Transportation Development Act Article 3 Fund financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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

Los Angeles, California
December 28, 2018

COMPLIANCE SECTION



SIMPSON & SIMPSON

CERTIFIED PUBLIC ACCOUNTANTS
FOUNDING PARTNERS
BRAINARD C. SIMPSON, CPA
MELBA W. SIMPSON, CPA

U.S. BANK TOWER
633 WEST 5TH STREET, SUITE 3320 LOS
ANGELES, CA 90071
(213) 736-6664 TELEPHONE
(213) 736-6692 FAX
www.simpsonandsimpsoncpas.com

Independent Auditor's Report On Compliance

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

Report on Compliance

We have audited the compliance of the City of Torrance, California (the City) with the Proposition A and Proposition C Local Return Guidelines, Measure R Local Return Guidelines, Measure M Local Return Guidelines, Transportation Development Act Article 3, and the Los Angeles County Metropolitan Transportation Authority's Funding and Allocation Guidelines for the Transportation Development Act Article 3 Bicycle and Pedestrian Funds (collectively, the Guidelines) for the year ended June 30, 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, Proposition C Local Return Program, Measure R Local Return Program, Measure M Local Return Program, and Transportation Development Act Article 3 Program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

In our opinion, the City complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2018.



Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Guidelines and which is described in the accompanying Schedule of Findings and Recommendations as Finding No. 2018-001. Our opinion on each local return program and Transportation Development Act Article 3 program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

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

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

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

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

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

Los Angeles, California
December 28, 2018

CITY OF TORRANCE
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 | |
| 8. | Annual Expenditure Report (Form C) was submitted on time. | X | | | None | |
| 9. | Cash or cash equivalents are maintained. | X | | | None | |
| 10. | Accounting procedures, record keeping and documentation are adequate. | X | | | None | |
| 11. | Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures. | X | | | None | |
| 12. | Local Return Account is credited for reimbursable expenditures. | X | | | None | |
| 13. | Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements. | | | X | None | There were no Intelligent Transportation Systems projects or elements in FY 2017/18. |
| 14. | Assurances and Understandings form was on file. | X | | | None | |
| 15. | Recreational transit form was submitted on time. | | | X | None | There was no recreational transit in FY 2017/18. |

CITY OF TORRANCE
COMPLIANCE MATRIX
Year Ended June 30, 2018
(Continued)

| Compliance Requirement | | In Compliance | | | Questioned Costs | If no, provide details and management response. |
|---------------------------------------|--|---------------|----|-----|------------------|--|
| | | Yes | No | N/A | | |
| B. Measure R Local Return Fund | | | | | | |
| 1. | Funds were expended for transportation purposes | X | | | None | |
| 2. | Fund were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall. | X | | | None | |
| 3. | Signed Assurances and Understandings was on file. | X | | | None | |
| 4. | Separate Measure R Local Return Account was established. | X | | | None | |
| 5. | Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account. | X | | | None | |
| 6. | Funds were expended with Metro's approval. | X | | | None | |
| 7. | Expenditure Plan (Form One) was submitted on time. | X | | | None | |
| 8. | Expenditure Report (Form Two) was submitted on time. | X | | | None | |
| 9. | Timely use of funds | X | | | None | |
| 10. | Administrative expenditures are within the 20% cap. | X | | | None | |
| 11. | Fund exchanges were approved by Metro. | | | X | None | There were no fund exchanges in FY 2017/18. |
| 12. | A separate account was established for capital reserve funds and capital reserve was approved by Metro. | X | | | None | |
| 13. | Recreational transit form was submitted on time. | | | X | None | There was no recreational transit in FY 2017/18. |

CITY OF TORRANCE
COMPLIANCE MATRIX
Year Ended June 30, 2018
(Continued)

| Compliance Requirement | | In Compliance | | | Questioned Costs | If no, provide details and management response. |
|---------------------------------------|--|---------------|----|-----|------------------|--|
| | | Yes | No | N/A | | |
| C. Measure M Local Return Fund | | | | | | |
| 1. | Funds were expended for transportation purposes. | | | X | | There were no expenditures in FY 2017/18. |
| 2. | Funds were used to augment, not supplant existing local revenues being used for transportation purposes unless there is a fund shortfall. | | | X | | There were no expenditures in FY 2017/18. |
| 3. | Signed Assurances and Understandings was on file. | X | | | | |
| 4. | Separate Measure M Local Return Account was established. | X | | | | |
| 5. | Revenue received including allocations, project generated revenues and interest income was properly credited to the Measure M Local Return Account | X | | | | |
| 6. | Funds were expended with Metro's approval. | | | X | | There were no expenditures in FY 2017/18. |
| 7. | Expenditure Plan (Form One) was submitted on time. | X | | | | |
| 8. | Expenditure Report (Form Two) was submitted on time. | X | | | | |
| 9. | Timely use of funds | X | | | | |
| 10. | Administrative expenses are within the 20% cap. | | | X | | There were no expenditures in FY 2017/18. |
| 11. | Fund exchanges were approved by Metro. | | | X | | There were no fund exchanges in FY 2017/18. |
| 12. | A separate account was established for capital reserve funds and capital reserve was approved by Metro. | | | X | | There were no expenditures in FY 2017/18. |
| 13. | Recreational transit form was submitted timely. | | | X | | There was no recreational transit in FY 2017/18. |

CITY OF TORRANCE
COMPLIANCE MATRIX
Year Ended June 30, 2018
(Continued)

| Compliance Requirement | | In Compliance | | | Questioned Costs | If no, provide details and management response. |
|---|--|---------------|----|-----|------------------|--|
| | | Yes | No | N/A | | |
| D. Transportation Development Act Article 3 Fund | | | | | | |
| 1. | Timely use of funds. | | X | | None | See Finding #2018-001 on the Schedule of Findings and Recommendations. |
| 2. | Expenditures were incurred for activities relating to pedestrian and bicycle facilities and amenities. | X | | | None | . |

CITY OF TORRANCE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2018

TDAA3F: Finding No. 2018-001

| | |
|-------------------------------|--|
| Compliance Requirement | According to Los Angeles County Metropolitan Transportation Authority’s Funding and Allocation Guidelines for the Transportation Development Act Article 3 Bicycle and Pedestrian Funds (TDA Article 3 Guidelines), “Agencies may only draw down local return funds if they will be fully spent or encumbered before the end of the fiscal year (June 30) in which they were allocated. Agencies are not allowed to have a fund balance at the end of the fiscal year. Any funds drawn down and that remain unspent after the end of the fiscal year must be returned to Metro to be placed on reserve for the city under the fiscal year in which they were originally allocated. Agencies must also fully spend any interest accumulated by these funds by the end of the fiscal year in which the funds were allocated.” |
| Condition | At June 30, 2018, the City had funds of \$956 which is interest income accumulated by the fiscal year 2017-18 drawn down. But, \$956 was not spent or encumbered on any projects as of June 30, 2018 as required by the Guidelines. |
| Cause | The City was unaware the interest income incurred from reserve balance should be fully spent or returned to LACMTA. |
| Effect | TDA 3 funds were not expended or encumbered before the end of the fiscal year and has not been returned to LACMTA to be placed on reserve resulting in questioned costs of \$956. |
| Recommendation | We recommend that the City implement internal control procedures to ensure that all TDA Article 3 funds drawn are fully spent or encumbered before the end of fiscal year. If there are any funds not spent during the fiscal year, the City should return the TDA Article 3 funds to LACMTA to be placed on reserve. |
| Management’s Response | <p>Torrance fully spent its FY2017-18 drawdown of \$98,333 by June 30, 2018, which complies with the guidelines. We also earned a total of \$956 of interest on the TDA-3 drawdown funds, however the total interest earned in the fiscal year was not confirmed with 100% accuracy until August 2018 (after fiscal year end). As such, we did not fully spend the interest by June 30, 2018. It is not possible for Torrance or any other agency to fully spend interest earnings before the end of a fiscal year, as the interest earned is not accurately determined until after fiscal year end.</p> <p>The City takes exception to the Auditor's statements in the "Condition" section of this Finding No. 2018-001. The FY2017-18 Guidelines "Funding, Lapsing, and Accounting" do not contain language that requires interest earnings to be "encumbered", only a requirement to "spend".</p> |

CITY OF TORRANCE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
 June 30, 2018

TDAA3F: Finding No. 2018-001 (Continued)

| | |
|--|---|
| <p>Management's Response (continued)</p> | <p>The City takes exception to the Auditor's statements in the "Cause" section of this Finding No. 2018-001. The FY2017-18 Guidelines "Funding, Lapsing, and Accounting" do not require or contain a directive to an Agency to return interest earnings to Metro. Instead, the guidelines only address interest earnings on reserve funds held in Metro's possession that are unspent.</p> <p>The City takes exception to the Auditor's statements in the "Effect" section of this Finding No. 2018-001. Torrance fully spent its FY2017-18 drawdown of \$98,333 by June 30, 2018, which complies with the guidelines. Further, the \$956 is identified by the Auditor as a "questioned cost". This is incorrect and conflicts with the Auditor's prior statement in the "Condition" section. The \$956 was not a "questionable cost", but instead has been properly identified as a balance of unspent interest earnings.</p> <p>The City takes exception to the Auditor's statements in the "Recommendation" section of this Finding No. 2018-001. Torrance fully spent its FY2017-18 drawdown of \$98,333 by June 30, 2018, which complies with the guidelines. There is no remaining balance from the drawdown to return. As such, Torrance's internal controls were implemented and ensured the full expenditure of the drawdown.</p> <p>The City wishes to clarify that the funds to be spent by June 30, 2019 in the "Finding Corrected During the Audit" section below are only interest earnings and not drawdown funds.</p> |
| <p>Finding Corrected During the Audit</p> | <p>On December 18, 2018, the City received an extension on the unexpended funds from the LACMTA program manager. Funds must be expended by June 30, 2019.</p> |
| <p>Auditor's Rejoinder</p> | <p>We understand the City management's response that they may not be able to spend the interest earnings before the end of the fiscal year. However, the TDA Article 3 Guidelines states "Agencies are not allowed to have a fund balance at the end of the fiscal year." Therefore, we stand by our compliance finding and recommendation. As for the "Cause", it should be updated to state that the City was unaware the interest earned on funds drawn down must be fully spent by the end of the fiscal year in which the funds were allocated.</p> |

EXIT CONFERENCE

CITY OF TORRANCE
PROPOSITION A, PROPOSITION C, MEASURE R, MEASURE M LOCAL RETURN FUNDS AND
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND
EXIT CONFERENCE
June 30, 2018

An exit conference was held on December 26, 2018 with the City of Torrance. Those in attendance were:

Simpson & Simpson Representative:

Lita Hendranata, Manager

City's Representative:

Craig Bilezerian, Deputy Public Works Director
Joyce Reyes, Accounting Manager

Matters Discussed:

Results of the audit disclosed no significant control deficiencies and one (1) non-compliance issue with Metro Guidelines.

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

Craig Bilezerian, Deputy Public Works Director
Joyce Reyes, Accounting Manager

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

RE: CITY OF TORRANCE ANNUAL FINANCIAL REPORT OF THE PROPOSITION A LOCAL RETURN FUND, PROPOSITION C LOCAL RETURN FUND, MEASURE R LOCAL RETURN FUND, MEASURE M LOCAL RETURN FUND AND TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

I have received the annual financial report of the Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, Measure M Local Return Fund and Transportation Development Act Article 3 Fund for the years ended June 30, 2018 and 2017 for the City of Torrance and agree with the contents of the report except as indicated below:

(Attach additional pages if necessary)

Very truly yours,

Name

Title

Date