

***CITY OF LAKEWOOD  
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, 2017 AND 2016***



**Metro<sup>®</sup>**



Simpson & Simpson, LLP  
Certified Public Accountants

***CITY OF LAKEWOOD***  
**TABLE OF CONTENTS**

<b>FINANCIAL SECTION</b>	<b>PAGE</b>
Independent Auditor’s Report	1
Proposition A Local Return Fund:	
Basic 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:	
Basic 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:	
Basic 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
Transportation Development Act Article 3 Fund:	
Basic Financial Statements:	
Balance Sheets	15
Statements of Revenues, Expenditures and Changes in Fund Balance	16
Supplementary Information:	
Schedule of Transportation Development Act Allocation for Specific Projects	17
Notes to Financial Statements	18
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>	22
<b>COMPLIANCE SECTION</b>	
Independent Auditor’s Report on Compliance	24
Compliance Matrix	27
Schedule of Findings and Recommendations	30
<b>EXIT CONFERENCE</b>	34

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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 Lakewood, 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) of the City of Lakewood, California (City) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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





***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the PALRF, PCLRF, MRLRF, and TDAA3F of the City of Lakewood, California, as of June 30, 2017 and 2016, 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, and TDAA3F and do not purport to, and do not, present fairly the financial position of the City of Lakewood, California, as of June 30, 2017 and 2016, and the changes in financial position thereof 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lakewood, California's PALRF, PCLRF, MRLRF, and TDAA3F Fund financial statements as a whole. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have issued our report dated November 16, 2017, on our consideration of the City of Lakewood's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and in considering the City's internal control over financial reporting and compliance.

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

Los Angeles, California  
November 16, 2017

**CITY OF LAKEWOOD**

**PROPOSITION A LOCAL RETURN FUND**

**BALANCE SHEETS**

**JUNE 30**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and investments	\$ 725,635	\$ 761,046
Due from General Fund	2,903	-
Total assets	\$ <u>728,538</u>	\$ <u>761,046</u>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ 25,855	\$ 35,001
Accrued payroll and employee benefits	4,292	6,801
Total liabilities	<u>30,147</u>	<u>41,802</u>
<b>Fund Balance</b>		
Restricted	<u>698,391</u>	<u>719,244</u>
Total fund balance	<u>698,391</u>	<u>719,244</u>
Total liabilities and fund balance	\$ <u>728,538</u>	\$ <u>761,046</u>

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

**CITY OF LAKEWOOD**

**PROPOSITION A LOCAL RETURN FUND**

**STATEMENTS OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	<u>2017</u>	<u>2016</u>
<b>REVENUES</b>		
Proposition A	\$ 1,489,003	\$ 1,466,113
Interest income	10,383	10,975
Other revenue (Note 8)	<u>2,903</u>	<u>-</u>
Total revenues	<u>1,502,289</u>	<u>1,477,088</u>
<b>EXPENDITURES</b>		
Various projects	<u>1,523,142</u>	<u>1,572,170</u>
Total expenditures	<u>1,523,142</u>	<u>1,572,170</u>
Deficiency of revenues over expenditures	(20,853)	(95,082)
Fund balance at beginning of year	<u>719,244</u>	<u>814,326</u>
Fund balance at end of year	<u>\$ 698,391</u>	<u>\$ 719,244</u>

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

**CITY OF LAKEWOOD**

PROPOSITION A LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES

ACTUAL AND METRO APPROVED PROJECT BUDGET

For the Fiscal Year Ended June 30, 2017

(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2016)

Project Code	Project Name	2017			2016 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
110-61	Long Beach Transit Subsidy	\$ 213,064	\$ 167,256	\$ 45,808	\$ 187,202
200-95	Dash Paratransit Shuttle Bus Purchase	180,000	180,531	(531)	-
270-23	Transportation Planning - Gateway Cities	14,718	14,718	-	14,718
270-29	Geographical Information System	60,866	35,656	25,210	39,174
280-30	CATV Programming	99,718	84,780	14,938	80,480
280-31	Public Information Campaign	29,829	25,729	4,100	26,275
300-83	DASH Office Expansion and Modernization	182,000	235	181,765	147,429
405-94	5th Fund Exchange - City of West Hollywood (Note 7)	-	-	-	1,000,000
405-96	6th Fund Exchange - City of West Hollywood (Note 7)	1,000,000	1,000,000	-	-
480-01	Direct Administration	63,423	14,237	49,186	76,892
	Total expenditures	<u>\$ 1,843,618</u>	<u>\$ 1,523,142</u>	<u>\$ 320,476</u>	<u>\$ 1,572,170</u>

See accompanying independent auditor's report.



**CITY OF LAKEWOOD**

PROPOSITION A LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION  
SCHEDULE OF CAPITAL ASSETS

June 30, 2017

Date Acquired	Description	Balance 7/1/2016	Additions	Deletions	Balance 6/30/2017
3/12/2001	2001 Ford/El Dorado Shuttle Bus E-450 with Wheel Chair Lift #29	\$ -	\$ 49,072	\$ 49,072	\$ -
3/2/2004	El Dorado Aerotech Class C Ford 350 #35	-	50,726	50,726	-
3/2/2004	El Dorado Aerotech Class C Ford 350 #36	-	50,726	-	50,726
3/2/2004	El Dorado Aerotech Class C Ford 350 #37	-	50,726	-	50,726
2/21/2007	El Dorado Aerotech Class C Ford 350 #38	-	61,329	-	61,329
2/21/2007	El Dorado Aerotech Class C Ford 350 #39	-	61,329	-	61,329
1/24/2014	Telephone System for DASH	7,374	-	-	7,374
3/21/2017	El Dorado Aerotech Class C Ford 350 #40	-	90,265	-	90,265
3/21/2017	El Dorado Aerotech Class C Ford 350 #41	-	90,265	-	90,265
Total		<u>\$ 7,374</u>	<u>\$ 504,438</u>	<u>\$ 99,798</u>	<u>\$ 412,014</u>

See accompanying independent auditor's report.

**CITY OF LAKEWOOD**

**PROPOSITION C LOCAL RETURN FUND**

**BALANCE SHEETS**

**JUNE 30**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and investments	\$ 2,905,411	\$ 2,354,650
Total assets	<u>\$ 2,905,411</u>	<u>\$ 2,354,650</u>
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ 3,951	\$ 784
Accrued payroll and benefits	<u>22,873</u>	<u>-</u>
Total liabilities	<u>26,824</u>	<u>784</u>
 <b>Fund Balance</b>		
Restricted	<u>2,878,587</u>	<u>2,353,866</u>
Total fund balance	<u>2,878,587</u>	<u>2,353,866</u>
 Total liabilities and fund balance	 <u>\$ 2,905,411</u>	 <u>\$ 2,354,650</u>

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

**CITY OF LAKEWOOD**

**PROPOSITION C LOCAL RETURN FUND**

**STATEMENTS OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	<u>2017</u>	<u>2016</u>
<b>REVENUES</b>		
Proposition C	\$ 1,236,997	\$ 1,217,338
Interest income	29,108	21,065
Other revenue (Note 9)	37,065	-
Total revenues	<u>1,303,170</u>	<u>1,238,403</u>
<b>EXPENDITURES</b>		
Various projects	<u>778,449</u>	<u>1,158,761</u>
Total expenditures	<u>778,449</u>	<u>1,158,761</u>
Excess of revenues over expenditures	524,721	79,642
Fund balance at beginning of year	<u>2,353,866</u>	<u>2,274,224</u>
Fund balance at end of year	<u>\$ 2,878,587</u>	<u>\$ 2,353,866</u>

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

**CITY OF LAKEWOOD**

**PROPOSITION C LOCAL RETURN FUND**

**SUPPLEMENTARY INFORMATION  
SCHEDULE OF EXPENDITURES  
ACTUAL AND METRO APPROVED PROJECT BUDGET**

For the Fiscal Year Ended June 30, 2017  
(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2016)

Project Code	Project Name	2017			2016 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
130-02	DASH Operations	\$ 675,783	\$ 667,627	\$ 8,156	\$ 676,851
140-04	Recreational Travel	4,600	3,996	604	3,649
440-84	Woodruff Avenue Pavement Rehabilitation	2,200,000	-	2,200,000	-
440-89	Del Amo Pavement Rehabilitation - Clark and Downey	-	-	-	257,160
480-04	Direct Administration	371,210	106,826	264,384	221,101
	Total expenditures	<u>\$ 3,251,593</u>	<u>\$ 778,449</u>	<u>\$ 2,473,144</u>	<u>\$ 1,158,761</u>

See accompanying independent auditor's report.

**CITY OF LAKEWOOD**

PROPOSITION C LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION  
SCHEDULE OF CAPITAL ASSETS

June 30, 2017

Date Acquired	Description	Balance 7/1/2016	Additions	Deletions	Balance 6/30/2017
5/28/2014	Dodge Braun Entervan-Grand Caravan ADA Compliant, Fleet Unit #21	\$ 46,089	\$ -	\$ -	\$ 46,089
5/28/2014	Dodge Braun Entervan-Grand Caravan ADA Compliant, Fleet Unit #24	46,089	-	-	46,089
5/28/2014	Dodge Braun Entervan-Grand Caravan ADA Compliant, Fleet Unit #25	46,089	-	-	46,089
5/28/2014	Dodge Braun Entervan-Grand Caravan ADA Compliant, Fleet Unit #26	46,089	-	-	46,089
5/28/2014	Dodge Braun Entervan-Grand Caravan ADA Compliant, Fleet Unit #27	46,089	-	-	46,089
5/28/2014	Dodge Braun Entervan-Grand Caravan ADA Compliant, Fleet Unit #28	46,089	-	-	46,089
Total		<u>\$ 276,534</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 276,534</u>

See accompanying independent auditor's report.

**CITY OF LAKEWOOD**

**MEASURE R LOCAL RETURN FUND**

**BALANCE SHEETS**

**JUNE 30**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and investments	\$ <u>1,808,461</u>	\$ <u>895,774</u>
Total assets	\$ <u><u>1,808,461</u></u>	\$ <u><u>895,774</u></u>
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ <u>8,675</u>	\$ <u>-</u>
Total liabilities	<u>8,675</u>	<u>-</u>
 <b>Fund Balance</b>		
Restricted	<u>1,799,786</u>	<u>895,774</u>
Total fund balance	<u>1,799,786</u>	<u>895,774</u>
Total liabilities and fund balance	\$ <u><u>1,808,461</u></u>	\$ <u><u>895,774</u></u>

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

**CITY OF LAKEWOOD**

**MEASURE R LOCAL RETURN FUND**

**STATEMENTS OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	<u>2017</u>	<u>2016</u>
<b>REVENUES</b>		
Measure R	\$ 926,540	\$ 912,628
Interest income	<u>15,301</u>	<u>4,850</u>
Total revenues	<u>941,841</u>	<u>917,478</u>
<b>EXPENDITURES</b>		
Various projects	<u>37,829</u>	<u>-</u>
Total expenditures	<u>37,829</u>	<u>-</u>
Excess of revenues over expenditures	904,012	917,478
Fund balance at beginning of year	<u>895,774</u>	<u>(21,704)</u>
Fund balance at end of year	\$ <u><u>1,799,786</u></u>	\$ <u><u>895,774</u></u>

The accompanying notes are an integral part of the financial statements

**CITY OF LAKEWOOD**

MEASURE R LOCAL RETURN FUND

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES

ACTUAL AND METRO APPROVED PROJECT BUDGET

For the Fiscal Year Ended June 30, 2017

(With Comparative Actual Amount for the Fiscal Year Ended June 30, 2016)

Project Code	Project Name	2017			2016 Actual
		Metro Budget	Actual	Variance Favorable (Unfavorable)	
1.05	Overlay 215th Street - East of Pioneer Boulevard (4/15/16 - 6/30/16)	\$ 35,000	\$ 22,850	\$ 12,150	\$ -
1.20	Improvement of On-Street Drainage on Paramount Boulevard	200,000	8,675	191,325	-
1.90	Street Improvements in Various Locations (7/1/12 - 12/31/13)	1,250,000	-	1,250,000	-
8.10	Direct Administration	283,629	6,304	277,325	-
	Total expenditures	<u>\$ 1,768,629</u>	<u>\$ 37,829</u>	<u>\$ 1,730,800</u>	<u>\$ -</u>

See accompanying independent auditor's report.



**CITY OF LAKEWOOD**  
**MEASURE R LOCAL RETURN FUND**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CAPITAL ASSETS**

June 30, 2017

Date Acquired	Description	Balance 7/1/2016	Additions	Deletions	Balance 6/30/2017
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

**CITY OF LAKEWOOD**

**TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND  
(PURSUANT TO PUBLIC UTILITIES CODE SECTION 99234)**

**BALANCE SHEETS**

**JUNE 30**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash	\$ 49,562	\$ -
Due from LACMTA	<u>4,506</u>	<u>4,313</u>
Total assets	<u>\$ 54,068</u>	<u>\$ 4,313</u>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts Payable	\$ 54,068	\$ -
Due to other fund	<u>-</u>	<u>4,313</u>
Total liabilities	<u>54,068</u>	<u>4,313</u>
<b>Fund Balance</b>		
Restricted	<u>-</u>	<u>-</u>
Total fund balance	<u>-</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 54,068</u>	<u>\$ 4,313</u>

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

**CITY OF LAKEWOOD**

**TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND**

**STATEMENTS OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE**

For the Fiscal Years Ended June 30

	<u>2017</u>	<u>2016</u>
<b>REVENUES</b>		
TDA 3	\$ 54,068	\$ 51,756
Total revenues	<u>54,068</u>	<u>51,756</u>
<b>EXPENDITURES</b>		
Local Street and Sidewalk Rehabilitation	<u>54,068</u>	<u>51,756</u>
Total expenditures	<u>54,068</u>	<u>51,756</u>
Excess of revenues over expenditures	-	-
Fund balance at beginning of year	<u>-</u>	<u>-</u>
Fund balance at end of year	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>

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

**CITY OF LAKEWOOD**

TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND  
SUPPLEMENTARY INFORMATION

SCHEDULE OF TRANSPORTATION DEVELOPMENT ACT  
ALLOCATION FOR SPECIFIC PROJECTS

For the Fiscal Year Ended June 30, 2017

<u>Project Description</u>	<u>Program Year</u>	<u>Allocations</u>	<u>Expenditures</u>	<u>Unexpended Allocations</u>	<u>Project Status</u>
<b>Local allocations</b>					
Local Street and Sidewalk Rehabilitation	2016-17	\$ 54,068	\$ 54,068	\$ -	Complete
	Total	<u>\$ 54,068</u>	<u>\$ 54,068</u>	<u>-</u>	
Fund balance at beginning of year				<u>-</u>	
Fund balance at end of year				<u>\$ -</u>	

See accompanying independent auditor's report.

## ***CITY OF LAKEWOOD***

### **NOTES TO FINANCIAL STATEMENTS** For the Fiscal Years Ended June 30, 2017 and 2016

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### *Fund Accounting*

The operations of the Proposition A Local Return Fund (PALRF) and Proposition C Local Return Funds (PCLRF), Measure R Local Return Fund (MRLRF), and Transportation Development Act Article 3 Fund (TDAA3F) 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 represents 15% of the 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.

Transportation Development Act Article 3 Fund (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, 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 a spending or “financial flow” measurement focus. This means that generally only current assets, current liabilities and deferred inflows and outflows of resources are included on their balance sheets. Statements of revenues, expenditures and changes in fund balances for Special Revenue Funds generally present increases (revenues 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 LAKEWOOD**

### **NOTES TO FINANCIAL STATEMENTS** For the Fiscal Years Ended June 30, 2017 and 2016 (Continued)

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### *Fair Value Measurement*

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

Refer to the City's 2017 Comprehensive Annual Financial Report for detailed disclosures regarding the City's investments policy and fair value measurements.

##### *Fund Balance Reporting*

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

The PALRF, PCLRF, MRLRF, and TDAA3F report the following fund balance classification as of June 30, 2017:

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

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, and TDAA3F and their compliance with the Proposition A and Proposition C Local Return Program Guidelines, Measure R Local Return Program Guidelines, 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 LAKEWOOD**

**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2017 and 2016  
(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.

**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.

**NOTE 5 – 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.

**NOTE 6 – CASH AND INVESTMENTS**

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

**NOTE 7 – PROPOSITION A FUND EXCHANGE - PALRF**

In fiscal year 2017, the City entered into an agreement on March 14, 2017 with the City of West Hollywood to exchange \$1 of Proposition A local return funds for every \$.75 (or 75 cents) of General Fund. Accordingly, the City received \$750,000 of the City of West Hollywood's General Funds on May 4, 2017 and assigned \$1,000,000 of its Proposition A Local Return Funds to the City of West Hollywood on April 27, 2017.

In fiscal year 2016, the City entered into an agreement on February 24, 2016 with the City of West Hollywood to exchange \$1 of Proposition A local return funds for every \$.75 (or 75 cents) of General Fund. Accordingly, the City received \$750,000 of the City of West Hollywood's General Funds on April 1, 2016 and assigned \$1,000,000 of its Proposition A Local Return Funds to the City of West Hollywood on April 7, 2016.

**NOTE 8 – OTHER REVENUE - PALRF**

Other revenue of \$2,903 consisted of proceeds received from the sale of PALRF buses #29 and #35 on April 29, 2017.

**CITY OF LAKEWOOD**

**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Years Ended June 30, 2017 and 2016  
(Continued)

**NOTE 9 – OTHER REVENUE - PCLRF**

Other revenue of \$37,065 for PCLRF consisted of funds received from the State of California to reimburse a portion of the expenditures incurred for the Del Amo Pavement Rehabilitation – Clark and Downey Project Code 440-89 in fiscal year 2016-17.

**NOTE 10 – TRANSPORTATION DEVELOPMENT ACT FUNDS REVENUE ALLOCATION**

The revenue allocation for the years ended June 30, 2017 and 2016 consisted of the following:

	2017	2016
FY 2015-16 allocation	\$ -	\$ 51,756
FY 2016-17 allocation	54,068	-
Total	<u>\$ 54,068</u>	<u>\$ 51,756</u>

**NOTE 11 – 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, 2017 and 2016, the City has no funds on reserve.

**NOTE 12 – SUBSEQUENT EVENTS**

The City has evaluated events or transactions that occurred subsequent to June 30, 2017 through November 16, 2017, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined no subsequent matters require disclosure or adjustment to the accompanying financial statements.





SIMPSON & SIMPSON  
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Honorable Members of the City Council of the  
City of Lakewood, 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 (PALRF), Proposition C Local Return Fund (PCLRF), Measure R Local Return Fund (MRLRF), and Transportation Development Act Article 3 Fund (TDAA3F) of the City of Lakewood, California (City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated November 16, 2017.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's local return funds and TDAA3F 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 financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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

A handwritten signature in black ink that reads "Simpson &amp; Simpson". The signature is written in a cursive, flowing style.

Los Angeles, California  
November 16, 2017

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*COMPLIANCE SECTION*

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## Independent Auditor's Report on Compliance

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

### Report on Compliance

We have audited the compliance of the City of Lakewood, California (City) with the Proposition A and Proposition C Local Return Guidelines, Measure R 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, 2017.

### *Management's Responsibility*

Management is responsible for the City's compliance with those 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 a local return program and the Transportation Development Act Article 3 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. Our audit does not provide a legal determination of the City's compliance with those requirements.

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

In our opinion, except as noted in the Compliance Matrix and the Schedule of Findings and Recommendations, the City of Lakewood complied, in all material respects, with the compliance requirements referred to above that apply to Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, and Transportation Development Act Article 3 Fund (TDAA3F) for the year ended June 30, 2017.





### ***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 #2017-001, and #2017-002. Our opinion on each 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 of Lakewood is responsible for establishing and maintaining effective internal control over compliance with the Requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the Requirements that could have a direct and material effect on the Local Return programs and the TDAA3F to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Requirements, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal controls over compliance that we consider to be material weaknesses.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance under the Requirements on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance under the Requirements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Recommendations as Finding #2017-001 and #2017-002 to be material weaknesses.

The responses by the City to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Recommendations. The responses by the City were not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.



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 requirement of the Guidelines. Accordingly, this report is not suitable for any other purpose.

*Simpson & Simpson*

Los Angeles, California  
November 16, 2017

**CITY OF LAKEWOOD**  
**COMPLIANCE MATRIX**  
Year Ended June 30, 2017

Compliance Requirement	In Compliance		Questioned Costs	If no, provide details and management response.
	Yes	No		
<b>A. Proposition A and Proposition C Local Return Funds</b>				
1. Timely use of funds.	X		None	
2. Expenditures were approved before being incurred.	X		None	
3. Funds were used on approved projects only and expenditures were supported and allowable per Guidelines.		X	PALRF: \$115,434 PCLRF: \$156,758	See Finding #2017-001 on the Schedule of Findings and Recommendations.
4. Expenditures did not exceed 25% of Metro's approved budget.	X		None	
5. Administrative expenses were within the 20% cap.	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) and listing of Recreational Transit Services, if applicable, were submitted on time.	X		None	
9. Cash or cash equivalents were maintained.	X		None	
10. Accounting procedures, record keeping and documentation were adequate.	X		None	
11. Revenues received including allocations, project generated revenues, and interest income were properly credited to the PALRF and PCLRF accounts.	X		None	

**CITY OF LAKEWOOD**  
**COMPLIANCE MATRIX**  
Year Ended June 30, 2017  
(Continued)

Compliance Requirement	In Compliance		Questioned Costs	If no, provide details and management response.	
	Yes	No			
<b>B. Measure R Local Return Fund</b>					
1.	Timely use of funds.	X		None	
2.	Expenditures were approved before being incurred.	X		None	
3.	Funds were used on approved projects only and expenditures were supported and allowable per Guidelines.		X	\$6,197	See Finding #2017-002 on the Schedule of Findings and Recommendations.
4.	Fund were not substituted for property tax.	X		None	
5.	Administrative expenses were within the 20% cap.	X		None	
6.	Expenditure Plan (Form One) was submitted on time.	X		None	
7.	Expenditure Report (Form Two) was submitted on time.	X		None	
8.	Cash or cash equivalents were maintained.	X		None	
9.	Accounting procedures, record keeping and documentation were adequate.	X		None	
10.	Revenues received including allocations, project generated revenues, and interest income were properly credited to the Measure R account.	X		None	
11.	Funds were not used to supplant existing local revenues being used for transportation purpose.	X		None	



**CITY OF LAKEWOOD**  
**COMPLIANCE MATRIX**  
Year Ended June 30, 2017  
(Continued)

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

**CITY OF LAKEWOOD**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

June 30, 2017

**PALRF and PCLRF: Finding #2017-001**

<p><b>Compliance Reference</b></p>	<p>According to Proposition A and 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 the jurisdictions’ responsibility to maintain proper accounting records and documentation to facilitate the performance of audit prescribed in the guidelines. “ In addition, LACMTA Local Return Program Manager issued a memo dated April 29, 2014 to jurisdiction to provide recommendations to ensure that jurisdictions have adequate evidence to support its compliance with the Local Returns Guidelines, those recommendations are “that an electronic system is acceptable as long as how much time is identified on the project (i.e. not just a clock-in-clock-out system) and this non-timesheet system, excel file or other, is authenticated by the employee and approved by one’s supervisor.” Also, “(4) Where employees work on multiple activities or cost objectives, a distribution or their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:</p> <ul style="list-style-type: none"><li>(b) A Federal award and non-Federal award.</li></ul> <p>(5) Personnel activity reports or equivalent documentation must meet the following standards:</p> <ul style="list-style-type: none"><li>(b) They must reflect an after the fact distribution of the actual activity of each employee,</li><li>(f) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that: (i) the governmental unit’s system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) at least quarterly, comparisons of actual costs to budgeted distribution based on monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) the budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.”</li></ul>
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**CITY OF LAKEWOOD**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

June 30, 2017

(Continued)

**PALRF and PCLRF: Finding #2017-001 (Continued)**

<p><b>Condition</b></p>	<p>To support the propriety of expenditures being charged to Proposition A and C Local Return Fund, payroll should be supported by properly executed payrolls, time records, activity reports, vouchers or other documentation evidencing in proper detail the nature of the charges. However, the salaries and benefits charged were based on distribution percentages determined before the services were performed on PALRF and PCLRF activities. Moreover, the hours were not adjusted to reflect the “true” hours worked on the projects at the end of the fiscal year 2016-17.</p> <p>(a) PALRF’s CATV Programming Project Code 280-30, in the amount of \$83,477.</p> <p>(b) PALRF’s Public Information Campaign Project Code 280-31, in the amount of \$17,958.</p> <p>(c) PALRF’s Direct Administration Project Code 480-01, in the amount of \$13,999.</p> <p>(d) PCLRF’s DASH Operations Project Code 130-02, in the amount of \$50,561.</p> <p>(e) PCLRF’s Direct Administration Project Code 480-04, in the amount of \$106,197.</p>
<p><b>Cause</b></p>	<p>The City’s budget and allocation of payroll to LACMTA funds are based on prior year’s actual time spent working on LACMTA projects and programs.</p>
<p><b>Effect</b></p>	<p>The payroll costs claimed under the Proposition A and C Local Return Fund projects may include expenditures which may not be allowable Proposition A and C project expenditures. This resulted in questioned costs of \$115,434 and \$156,758 for PALRF and PCLRF, respectively.</p>
<p><b>Recommendation</b></p>	<p>In accordance with the Guidelines, we recommend that the City reimburse its Proposition A and C Local Return Fund accounts for \$115,434 and \$156,758, respectively. In addition, we recommend that the City revise its current labor costs reporting procedures to ensure that labor costs charged to Local Return Funds are adequately supported by time sheets or similar documentation which includes employees’ actual working hours.</p>
<p><b>Management’s Response</b></p>	<p>Beginning fiscal year ended 2017-18 and forward, the City is implementing the “true-up” process where the payroll amounts are based on prior year’s experience and at the end of each quarter, the Senior Accountant will process a “true-up” of the payroll based on actual hours worked on the respective PALRF and PCLRF projects.</p>

**CITY OF LAKEWOOD**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

June 30, 2017

(Continued)

**MRLRF: Finding #2017-002**

<p><b>Compliance Reference</b></p>	<p>According to Measure R Local Return Guidelines, Section A.I, “The Measure R Ordinance specifies that Local Return funds are to be used for transportation purposes. No net revenue distributed to Jurisdictions may be used for purposes other than transportation purposes.” and Section B.VII, “It is the Jurisdictions’ responsibility to maintain proper accounting records and documentation to facilitate the performance of audit prescribed in these guidelines.” In addition, LACMTA Local Return Program Manager issued a memo dated April 29, 2014 to jurisdiction to provide recommendations to ensure that jurisdictions have adequate evidence to support its compliance with the Local Returns Guidelines, those recommendations are “that an electronic system is acceptable as long as how much time is identified on the project (i.e. not just a clock-in-clock-out system) and this non-timesheet system, excel file or other, is authenticated by the employee and approved by one’s supervisor.” Also, “(4) Where employees work on multiple activities or cost objectives, a distribution or their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:</p> <ul style="list-style-type: none"><li>(b) A Federal award and non-Federal award.</li></ul> <p>(5) Personnel activity reports or equivalent documentation must meet the following standards:</p> <ul style="list-style-type: none"><li>(b) They must reflect an after the fact distribution of the actual activity of each employee,</li><li>(f) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that: (i) the governmental unit’s system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) at least quarterly, comparisons of actual costs to budgeted distribution based on monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) the budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.”</li></ul>
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**CITY OF LAKEWOOD**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

June 30, 2017

(Continued)

**MRLRF: Finding #2017-002 (Continued)**

<b>Condition</b>	To support the propriety of expenditures being charged to Measure R Local Return Fund, payroll should be supported by properly executed payrolls, time records, activity reports, vouchers or other documentation evidencing in proper detail the nature of the charges. However, the salaries and benefits charged to Direct Administration Project Code 8.10 amounting to \$ 6,197 were based on distribution percentages determined before the services were performed. Moreover, the hours were not adjusted to reflect the “true” hours worked on the projects at the end of the fiscal year 2016-17.
<b>Cause</b>	The City’s budget and allocation of payroll to LACMTA funds are based on prior year’s actual time spent working on LACMTA projects and programs.
<b>Effect</b>	The payroll costs claimed under the Measure R Local Return Fund project may include expenditures which may not be allowable. This resulted in questioned costs of \$6,197 for MRLRF.
<b>Recommendation</b>	In accordance with the Guidelines, we recommend that the City reimburse its Measure R Local Return Fund account for \$6,197. In addition, we recommend that the City revise its current labor costs reporting procedures to ensure that labor costs charged to Local Return Funds are adequately supported by time sheets or similar documentation which includes employees’ actual working hours.
<b>Management’s Response</b>	Beginning fiscal year ended 2017-18 and forward, the City is implementing the “true-up” process where the payroll amounts are based on prior year’s experience and at the end of each quarter, the Senior Accountant will process a “true-up” of the payroll based on actual hours worked on the MRLRF projects.

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***EXIT CONFERENCE***

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**CITY OF LAKEWOOD**

**PROPOSITION A, PROPOSITION C, MEASURE R LOCAL RETURN FUNDS, AND  
TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND  
EXIT CONFERENCE**

June 30, 2017

An exit conference was held on December 14, 2017 via telephone conference. Those in attendance were:

***Simpson & Simpson Representative:***

Elizabeth Mendoza, Senior Auditor

***City's Representative:***

Claire Houck, Senior Accountant

***Matters Discussed:***

Results of the audit disclosed two (2) material weaknesses and two (2) non-compliance issues with LACMTA's 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:

Claire Houck, Senior Accountant

Simpson & Simpson, LLP  
633 West 5<sup>th</sup> Street, Suite 3320  
Los Angeles, CA 90071

RE: CITY OF LAKEWOOD ANNUAL FINANCIAL REPORT OF THE PROPOSITION A LOCAL RETURN FUND, PROPOSITION C LOCAL RETURN FUND, MEASURE R LOCAL RETURN FUND, AND TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016.

I have received the annual financial report of the Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, and Transportation Development Act Article 3 Fund for the years ended June 30, 2017 and 2016 for the City of Lakewood and agree with the contents of the report except as indicated below:

(Attach additional pages if necessary)

Very truly yours,

\_\_\_\_\_  
Name

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date