



MetroTM

**City of Compton
Annual Financial Report of its**

**Proposition A Local Return Fund
Proposition C Local Return Fund
Measure R Local Return Fund
Measure M Local Return Fund**

**As of and for the Year Ended June 30, 2018
with Report of Independent Auditors**

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FINANCIAL SECTION

Report of Independent Auditors

**To the Honorable Members of the City Council of the
City of Compton, 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, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Measure M Local Return Fund (collectively, the Funds) of the City of Compton, California (the City) which comprise the Funds' balance sheets as of June 30, 2018, and the related statements of revenues, expenditures and changes in fund balances for the year then ended, and the related notes to the financial statements.

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.

Auditors' 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 audits 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 City'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 City'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 qualified and unqualified audit opinions.



Basis for Qualified Opinions on Proposition A Local Return Fund (PALRF), Proposition C Local Return Fund (PCLRF) and Measure R Local Return Fund (MRLRF)

During our audit of the Funds' 2018 financial statements, the City has made adjustments to the PALRF, PCLRF and MRLRF's beginning fund balances for expenditures not reported in those funds in prior years. The adjustments resulted from the audits of the City's financial statements as a whole. As of the date of this report, the audits of the City's financial statements as of and for the fiscal years ended June 30, 2015, 2016, 2017 and 2018 are still ongoing. Consequently, we were unable to determine whether additional adjustments will still be necessary as a result of the audits being conducted on the City's financial statements.

Qualified Opinions on PALRF, PCLRF and MRLRF

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinions paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Proposition A Local Return Fund, the Proposition C Local Return Fund and the Measure R Local Return Fund as of June 30, 2018, of the City of Compton, California, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion on the Measure M Local Return Fund (MMLRF)

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure M Local Return Fund as of June 30, 2018, of the City of Compton, California, and the change in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements are intended to present only the Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Measure M Local Return Fund of the City of Compton, California and do not purport to, and do not present the financial position of the City as of June 30, 2018, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Supplementary Information

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

The supplementary information identified in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the Funds' basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Funds' basic 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' basic financial statements or to the Funds' basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the supplementary information is fairly stated, in all material respects, in relation to each of the Funds' basic financial statements as a whole.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2019 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 solely 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 the effectiveness of the City's 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.

Vasquez & Company LLP

**Glendale, California
January 24, 2019**

City of Compton
Proposition A Local Return Fund
Balance Sheet
June 30, 2018

ASSETS

Cash and investments	\$	2,947,372
Accounts receivable		549
Interest receivable		11,867
Total assets	\$	<u><u>2,959,788</u></u>

LIABILITIES AND FUND BALANCE

Liabilities		
Accounts payable	\$	114,520
Total liabilities		<u>114,520</u>

Fund balance		
Restricted		2,845,268
Total fund balance		<u>2,845,268</u>
Total liabilities and fund balance	\$	<u><u>2,959,788</u></u>

See notes to Funds financial statements.

City of Compton
Proposition A Local Return Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Year ended June 30, 2018

Revenues

Proposition A	\$	1,888,195
Proposition A Discretionary Incentive Program Grant		55,740
Interest income		32,266
Project generated revenues		46,364
Total revenues		<u>2,022,565</u>

Expenditures

Various projects		1,534,159
Total expenditures		<u>1,534,159</u>

Excess of revenues over expenditures		488,406
Fund balance at beginning of year, as restated		<u>2,356,862</u>
Fund balance at end of year	\$	<u><u>2,845,268</u></u>

See notes to Funds financial statements.

City of Compton
Proposition A Local Return Fund
Supplementary Information

**Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2018**

Project Code	Project Name	LACMTA Budget	Actual	Variance Positive (Negative)
110-07	Fixed Route Transit System	\$ 992,578	\$ 915,241	\$ 77,337
130-04	Dial-A-Ride Transit System	400,000	66,240	333,760
180-40	Bus Purchase	332,795	332,795	-
280-29	Marketing and Promotions of the Compton Renaissance Fixed Route Transit	10,000	5,737	4,263
480-01	Memberships, Gateway Cities, I-710 Corridor (Formerly, 19-270)	354,226	152,250 *	201,976
500-07	Self Insured Compton Employer	90,000	61,896 *	28,104
Total expenditures		\$ 2,179,599	\$ 1,534,159	\$ 645,440

* See Compliance Matrix and Schedule of Findings and Questioned Costs.

See report of independent auditors.

City of Compton
Proposition A Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2018

Date Acquired	Description	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
1987-91	MLK Transit Center	\$ 2,069,970	\$ -	\$ -	\$ 2,069,970
1989	Ford Falcon	36,082	-	-	36,082
1987	Ford Econoline	40,949	-	-	40,949
1986	Ford Econoline	39,565	-	-	39,565
1984	Ford Escort Van	36,070	-	-	36,070
1984	Ford Escort Van	36,070	-	-	36,070
1984	Ford Escort Van	34,540	-	-	34,540
1991	Paratransit Bus	44,770	-	-	44,770
1992	Ford Challenger Van	43,371	-	-	43,371
1992	Gestetner Copies	3,404	-	-	3,404
1993	Ford Challenger Van	47,072	-	-	47,072
1993	Communication Equipment	833	-	-	833
1993	Furniture and Equipment	8,596	-	-	8,596
1994	Ford Challenger Van	49,445	-	-	49,445
1994	Communication Equipment	1,290	-	-	1,290
1995	Ford Champion Challenger Bus	46,803	-	-	46,803
2001	NEC Computer	3,127	-	-	3,127
2001	Motorola Radio	1,951	-	-	1,951
2002	Furniture and Equipment/MLK	1,131	-	-	1,131
2002	Communication - Curb Side Ramp	241,540	-	-	241,540
2002	Champion Paratransit Bus	99,544	-	-	99,544
2002	Motorola Wireless Base Control Antenna Kit, Two-Way Radios	3,414	-	-	3,414
2002	Land/Land Improvement	1,219,525	-	-	1,219,525
2003	Natural Gas Transit Buses	149,000	-	-	149,000
2004	5 CNG Buses	347,112	-	-	347,112
2005	Quadrant Gate at 4 Blue Line Arterial Street	165,748	-	-	165,748
2005	MLK Transit Center Renovation	986,798	-	-	986,798
2005	Machinery and Equipment	17,862	-	-	17,862
2005	7 Ford Vehicles	173,405	-	-	173,405
2007	MLK Transit Center Renovation	42,532	-	-	42,532
2007	Transit Vehicle	159,055	-	-	159,055
2008	Transit Vehicle	115,704	-	-	115,704
2010	Bus Stop Shelter Construction	29,870	-	-	29,870
2010	Bus Stop Improvement Project	103,043	-	-	103,043
2014	5 Buses	310,735	-	-	310,735
2018	2 Clean Air Buses	-	332,795	-	332,795
Total \$		6,709,926	\$ 332,795	\$ -	\$ 7,042,721

See report of independent auditors.

City of Compton
Proposition C Local Return Fund
Balance Sheet
June 30, 2018

ASSETS

Cash and investments	\$	2,477,686
Interest receivable		4,977
		Total assets \$ 2,482,663

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$	631,564
Contract retention payable		130,045
Due to General Fund		58,361
YMCA contribution payable		26
Accrued liabilities		704,113
		Total liabilities 1,524,109

Fund balance

Restricted		958,554
		Total fund balance 958,554
		Total liabilities and fund balance \$ 2,482,663

See notes to Funds financial statements.

City of Compton
Proposition C Local Return Fund
Statements of Revenues, Expenditures and Changes in Fund Balance
Year ended June 30, 2018

Revenues

Proposition C	\$	1,566,259
Interest income		14,190
	Total revenues	<u>1,580,449</u>

Expenditures

Various projects		<u>1,838,846</u>
	Total expenditures	<u>1,838,846</u>

Deficiency of revenues over expenditures		(258,397)
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Fund balance at beginning of year, as restated		<u>1,216,951</u>
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Fund balance at end of year	\$	<u><u>958,554</u></u>
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See notes to Funds financial statements.

City of Compton
Proposition C Local Return Fund
Supplementary Information

Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2018

Project Code	Project Name	LACMTA Budget	Actual	Variance Positive (Negative)
270-01	Compton Creek Regional Bikeway Master Plan	\$ 45,000	\$ -	\$ 45,000
270-02	Proposal for FASB 34 Compliance Infrastructure Valuation Services	45,000	-	45,000
270-03	Gateway Cities Council of Governments	-	70,000 *	(70,000)
420-01	2005 Congestion Management Program (CMP)	10,000	-	10,000
440-31	Los Angeles County Public Works Traffic Signals and Lane Lines and Markings Project	300,000	166,099	133,901
450-51	Wilmington Avenue Safe Street Pedestrian/ Bicycle Improvement	1,391,199	20,917	1,370,282
450-52	Central Avenue Pavement Rehabilitation Project Phase II	1,392,578	1,334,488	58,090
470-43	Updated Pavement Study Project	77,907	35,321	42,586
480-01	Memberships, Gateway Cities, I-710 Corridor (Formerly 19-270)	293,821	212,021 *	81,800
Total expenditures		\$ 3,555,505	\$ 1,838,846	\$ 1,716,659

* See Compliance Matrix and Schedule of Findings and Questioned Costs.

See report of independent auditors.

**City of Compton
Proposition C Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2018**

Date Acquired	Description	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
1995	Computer Hardware/Software	\$ 14,893	\$ -	\$ -	\$ 14,893
1998	Buses/Van	491,277	-	-	491,277
1998	Machinery and Equipment	2,565	-	-	2,565
1998	Machinery and Equipment	5,053	-	-	5,053
1998	Fire Resistance	9,872	-	-	9,872
1998	Reconstruction of the Bus Turnouts and Driveways at MLK Transit Center	50,600	-	-	50,600
1998	Rosecrans Avenue Rehabilitation Project	576,218	-	-	576,218
1998	Computer Hardware/Software	8,013	-	-	8,013
1998	Machinery and Equipment	4,998	-	-	4,998
1998	Rosecrans Avenue Rehabilitation Project	1,010,607	-	-	1,010,607
2001	Bus Shelter Benches	65,941	-	-	65,941
2001	Computer Hardware/Software	12,606	-	-	12,606
2001	Rehabilitation Project	177,117	-	-	177,117
2001	Rosecrans Avenue Rehabilitation Project	8,716	-	-	8,716
2001	MLK Park and Ride	42,528	-	-	42,528
2005	Computer Hardware/Software Upgrade	2,749	-	-	2,749
2006	Design Quadrant Gates	14,310	-	-	14,310
2006	Compton Creek	120,000	-	-	120,000
2006	Kingston Computer Hardware	23,064	-	-	23,064
2006	Trails, Greenleaf Boulevard	253,535	-	-	253,535
2006	Compton Creek Multi-Purpose Trail	93,129	-	-	93,129
2006	Painting of the Dollaride Community Center	19,175	-	-	19,175
2006	Machinery and Equipment	29,209	-	-	29,209
2010	MLK Transit Center	483,937	-	-	483,937
2010	Safe Route to School Project	130,622	-	-	130,622
Total		\$ 3,650,734	\$ -	\$ -	\$ 3,650,734

See report of independent auditors.

City of Compton
Measure R Local Return Fund
Balance Sheet
June 30, 2018

ASSETS

Cash and investments	\$	1,890,727
Interest receivable		3,929
		Total assets \$ 1,894,656

LIABILITIES AND FUND BALANCE

Liabilities

Due to General Fund	\$	1,023,215
Contract retention payable		16,292
Accrued liabilities		409,501
		Total liabilities 1,449,008

Fund balance

Restricted		445,648
		Total fund balance 445,648
		Total liabilities and fund balance \$ 1,894,656

See notes to Funds financial statements.

City of Compton
Measure R Local Return Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2018

Revenues

Measure R	\$	1,173,073
Interest income		10,242
Other revenue		1,925
		1,185,240
Total revenues		1,185,240

Expenditures

Various projects		540,770
		540,770
Total expenditures		540,770

Excess of revenues over expenditures		644,470
Fund balance (deficit) at beginning of year, as restated		(198,822)
Fund balance at end of year	\$	445,648

See notes to Funds financial statements.

City of Compton
Measure R Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2018

Project Code	Project Name	LACMTA Budget	Actual	Variance Positive (Negative)
1.05	Street and Road Repair and Maintenance	\$ 1,101,843	\$ -	\$ 1,101,843
1.05	Central Ave Rehabilitation Project	-	325,830 *	(325,830)
3.20	Compton Creek Walking Path-ADA Compliance	-	2,210 *	(2,210)
8.10	Fund Administration	-	212,730 *	(212,730)
Total expenditures		\$ 1,101,843	\$ 540,770	\$ 561,073

* See Compliance Matrix and Schedule of Findings and Questioned Costs.

See report of independent auditors.

City of Compton
Measure R Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2018

<u>Date Acquired</u>	<u>Description</u>	<u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2018</u>
5/31/2011	Mona Boulevard Project	\$ 26,800	\$ -	\$ -	\$ 26,800
	Total	\$ 26,800	\$ -	\$ -	\$ 26,800

See report of independent auditors.

City of Compton
Measure M Local Return Fund
Balance Sheet
June 30, 2018

ASSETS

Cash and investments		\$	1,063,073
	Total assets	\$	<u>1,063,073</u>

LIABILITIES AND FUND BALANCE (DEFICIT)

Liabilities			
Accounts payable		\$	-
	Total liabilities		<u> </u>

Fund balance			
Restricted			1,063,073
	Total fund balance (deficit)		<u>1,063,073</u>
	Total liabilities and fund balance (deficit)	\$	<u>1,063,073</u>

See notes to Funds financial statements.

City of Compton
Measure M Local Return Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Year ended June 30, 2018

Revenues		
Measure M		\$ 1,063,073
	Total revenues	<u>1,063,073</u>
 Expenditures		
Various projects		-
	Total expenditures	<u>-</u>
Excess of revenues over expenditures		1,063,073
Fund balance at beginning of the year		<u>-</u>
Fund balance at end of year		<u>\$ 1,063,073</u>

See notes to Funds financial statements.

City of Compton
Measure M Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2018

Project Code	Project Name	LACMTA Budget	Actual	Variance Positive (Negative)
None		\$ -	\$ -	\$ -
	Total expenditures	\$ -	\$ -	\$ -

See report of independent auditors.

City of Compton
Measure M Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2018

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2018</u>
	None	\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See report of independent auditors.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The operations of the Proposition A Local Return Fund (PALRF), the Proposition C Local Return Fund (PCLRF), the Measure R Local Return Fund (MRLRF) and the Measure M Local Return Fund (MMLRF) (collectively, the Funds) of the City of Compton (the City) 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 the county-wide ½ cent Measure R 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 the county-wide ½ cent Measure M 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.

Basis of Accounting and Measurement Focus

The PALRF, PCLRF, MRLRF and MMLRF are reported as Special Revenue Funds of the City and are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become "susceptible to accrual", that is, measurable and available to finance expenditures of the current period. Expenditures are recorded when the liability is 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 based on budgets approved by LACMTA and are presented in accordance with accounting principles generally accepted in the United States of America.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement

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

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

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 MMLRF report the following fund balance classification as of June 30, 2018:

- 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 the City's Comprehensive Annual Financial Report.

NOTE 2 ANNUAL FINANCIAL STATEMENTS

The financial statements are intended to present only the financial position and results of operations of the PALRF, PCLRF, MRLRF and MMLRF, and do not purport to, and do not present the City's financial position as of June 30, 2018, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

NOTE 3 PROPOSITION A AND PROPOSITION C LOCAL RETURN COMPLIANCE REQUIREMENTS

The Proposition A Ordinance requires that Local Return (LR) funds be used exclusively to benefit public transit. Expenditures related to fixed route and paratransit services, Transportation Demand Management, Transportation Systems Management and fare subsidy programs that exclusively benefit transit are all eligible uses of Proposition A LR funds. Proposition A LR funds may also be traded with other Jurisdictions in exchange for general or other funds.

The Proposition C Ordinance directs that LR funds also be used to benefit public transit, as described above, but provides an expanded list of eligible project expenditures including Congestion Management Programs, bikeways and bike lanes, street improvements supporting public transit service, and Pavement Management System projects. Proposition C LR funds cannot be traded.

Proposition A and Proposition C LR funds must be expended within three years of the last day of the fiscal year in which funds were originally allocated.

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

The Measure R Ordinance specifies that LR funds be used exclusively for transportation purposes.

Measure R LR funds must be expended within five years of the first day of the fiscal year in which funds were originally allocated or received.

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

Measure M was approved by the voters of Los Angeles County on November 8, 2016 to improve transportation and ease traffic congestion consistent with the Los Angeles County Traffic Improvement Plan Ordinance approved by the Metro Board of Directors on June 23, 2016. The Measure M Ordinance specifies that LR funds be used exclusively for transportation purposes.

Measure M LR funds must be expended within five years of the first day of the fiscal year in which funds were originally allocated or received.

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. See accompanying Compliance Matrix.

NOTE 6 PROPOSITION A DISCRETIONARY INCENTIVE PROGRAM GRANT

The City received Proposition A Discretionary Incentive Program Grant amounting to \$55,740 for the year ended June 30, 2018, which represents additional funds received from LACMTA for participating in the Voluntary NTD Program.

The Proposition A Discretionary Incentive Program Grant was recorded in PALRF.

NOTE 7 PROJECT GENERATED REVENUES

Project generated revenues under PALRF for the year ended June 30, 2018 consisted of the following:

Passenger fares	\$ 44,379
Dial-A-Ride fares	1,985
	<u> 46,364</u>

NOTE 8 SUBSEQUENT EVENTS

The City has evaluated subsequent events through January 24, 2019, the date the financial statements were available to be issued, and concluded no events have occurred that require disclosure or adjustments to the financial statements.

**Report of Independent Auditors 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 Compton, California and the
Los Angeles County Metropolitan Transportation Authority**

We have audited, in accordance with the 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, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Measure M Local Return Fund (collectively, the Funds) of the City of Compton, 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 January 24, 2019.

Internal Control over Financial Reporting

In planning and performing our audits of the Funds' financial statements, we considered the City's internal control over the Funds' 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 Funds' 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. We identified a deficiency in internal control, described in the Schedule of Findings on Internal Control over Financial Reporting as Finding No. FS 2018-001, that we consider to be a material weakness.



The City's Response to the Finding

The City's response to the finding identified in our audit is described in the accompanying Schedule of Findings on Internal Control over financial Reporting. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the response.

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 and Measure M Local Return 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 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 results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Vasquez & Company LLP". The signature is written in a cursive, flowing style.

**Glendale, California
January 24, 2019**

Finding No. FS 2018-001: Year-end Closing Process

Criteria

Proposition A and Proposition C Local Return Guidelines Section V, Measure R Local Return Guidelines Section VII and Measure M Local Return Guidelines Section XXV states that, "It is the jurisdictions' responsibility to maintain proper accounting records and documentation to facilitate the performance of the audit as prescribed in these Guidelines".

Condition and Context

This year's closing process was delayed because some important procedures were not performed on time. These include:

- Cut off procedures. Cut off procedures relating to year-end accruals were inadequate to ensure the recording of transactions in the proper period. This resulted in the City's adjustments which affected prior period's account balances.
- Beginning fund balances were not reconciled with the prior year audited reports
- Forms submitted to LACMTA were not reconciled with the City's General Ledger.

Cause and Effect

We learned that the City lost several key employees in the finance and accounting department during the fiscal year 2018. As such, there was delay in the closing of the City's books for the fiscal year 2018 and prior years. Currently, the accounting personnel and support do not have the institutional knowledge to ensure the books are updated and transactions are recorded correctly. These conditions resulted in delays in producing closing entries, trial balances, schedules, reconciliations, account analysis, and other financial reports needed by management and the auditors.

Recommendation

We recommend that the City establish and document proper closing and reconciliation procedures and assign responsibility for completing the procedures to specific City personnel. The closing procedures should be documented in a checklist that indicates who will perform each procedure and when completion of each procedure is due and is accomplished. The timing of specific procedures could be coordinated with the timing of management's or the auditor's need for the information. These reconciliations will provide assurance that financial statements are meaningful and accurate.

Views of Responsible Officials

The City is in the process of catching up on all accounting processes that have not been completed due to staff turnover and various other reasons. The new management team in the Controller's office are putting procedures in place to ensure monthly and annual year-end closing processes are well documented and occur on time.

COMPLIANCE SECTION

Report of Independent Auditors on Compliance

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

Report on Compliance

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

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on the City's compliance with the Guidelines based on our audit. We conducted our audit of compliance in accordance with the 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. Those standards and the Guidelines require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the Proposition A Local Return Program, Proposition C Local Return Program, Measure R Local Return Program and Measure M Local Return Program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for Qualified Opinions on Compliance of the Proposition A Local Return Fund (PALRF), Proposition C Local Return Fund (PCLRF) and Measure R Local Return Fund (MRLRF)

As described in the accompanying Schedule of Findings and Questioned Costs, we were unable to obtain sufficient appropriate audit evidence supporting the compliance of the City of Compton with the documentation requirements supporting allowability of certain costs charged to the local return funds.



Qualified Opinions on Compliance of the PALRF, PCLRF and MRLRF

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the City of Compton complied, in all material respects, with the compliance requirements of the Proposition A and Proposition C Local Return Guidelines and Measure R Local Return Guidelines for the year ended June 30, 2018.

Unmodified Opinion on Compliance of the Measure M Local Return Fund (MMLRF)

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance with the requirements, which are described in the accompanying Schedule of Findings and Questioned Costs as Findings CF #2018-001 through CF #2018-007.

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

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements 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 under the Guidelines and Requirements on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance under the Guidelines and Requirements 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 and Requirements 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 preceding paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as Findings CF #2018-001 through CF #2018-007, collectively, that we consider to be material weaknesses.



The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. 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.

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.

Vasquez & Company LLP

**Glendale, California
January 24, 2019**

**City of Compton
Compliance Matrix
Year ended June 30, 2018**

Compliance Requirements	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				
2. Timely use of funds.	X				
3. Funds expended were approved and have not been substituted for property tax.		X			See Finding CF #2018-001
4. Expenditures that exceeded 25% of approved project budget have approved amended Project Description Form (Form A).	X				
5. Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	X				
6. All on-going and carryover projects were reported in Form B.	X				
7. Annual Project Summary Report (Form B) was submitted timely.	X				
8. Annual Expenditure Report (Form C) was submitted timely.	X				
9. Cash or cash equivalents are maintained.	X				
10. Accounting procedures, record keeping and documentation are adequate.		X		PALRF - \$25,010 PCLRF - \$212,021 and PALRF - \$189,136	See Finding CF #2018-002 and CF #2018-003
11. Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	X				
12. Local Return Account is credited for reimbursable expenditures.			X		
13. Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.			X		
14. Assurances and Understandings form was on file.	X				
15. Recreational Transit Form was submitted timely.	X				

See report of independent auditors on compliance.

**City of Compton
Compliance Matrix
Year ended June 30, 2018**

Compliance Requirements	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		\$212,730	See Finding CF #2018-004 and Finding #2018-005
2. Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	X				
3. Signed Assurances and Understandings on file.	X				
4. Separate Measure R Local Return Account was established.	X				
5. Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	X				
6. Funds were expended with LACMTA's approval.		X			See Finding CF#2018-006
7. Expenditure Plan (Form One) was submitted timely.	X				
8. Expenditure Report (Form Two) was submitted timely.	X				
9. Timely use of funds.	X				
10. Administrative expenses are within the 20% cap.		X		\$130,720*	See Finding CF #2018-007
11. Fund exchanges were approved by LACMTA.			X		
12. A separate account was established for Capital reserve funds and Capital reserve was approved by LACMTA.			X		
13. Recreational transit form was submitted timely.			X		

**This amount is included in the \$212,730 questioned cost under compliance requirement No. 1.*

**City of Compton
Compliance Matrix
Year ended June 30, 2018**

Compliance Requirements	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 on file.	X				
4. Separate Measure M Local Return Account was established.	X				
5. Revenues 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 LACMTA's approval.			X		There were no expenditures in FY 2017/18.
7. Expenditure Plan (Form M-One) was submitted timely.			X		There were no expenditures in FY 2017/18.
8. Expenditure Report (Form M-Two) was submitted timely.	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 LACMTA.			X		
12. A separate account was established for Capital reserve funds and Capital reserve was approved by LACMTA.			X		
13. Recreational transit form was submitted timely.			X		

See report of independent auditors on compliance.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Compton
Schedule of Findings and Questioned Costs
Year ended June 30, 2018

PCLRF: Finding CF No. 2018-001

Compliance Reference	Section I(C) of the Proposition A and C Local Return Guidelines states that, "Jurisdictions shall submit for approval a Project Description Form (Form A) prior to the expenditure of funds for: 1) a new project; 2) a new route; 3) a 25 percent change (increase or decrease) in route or revenue vehicle miles for an established LR funded transit service; 4) a 0.75 miles or greater service change that duplicates/overlays an existing transit service; or 5) a 25 percent or greater change in an approved LR project budget or scope on all operating or capital LR projects."
Condition	<p>The City claimed expenditures amounting to \$70,000 under PCLRF Project code 270-03, Gateway Cities Council of Governments, with no prior approval from LACMTA.</p> <p>Although we found the expenditures to be eligible for Local Return funding, this project had no prior approval from LACMTA.</p>
Cause	The City concurs with the finding that Project Form A should have been submitted for prior approval on our transit and capital project expenditures. The finding was caused by an oversight by City staff.
Effect	Proposition C funds were expended towards project expenditures without prior approval by the LACMTA. The City did not comply with the Guidelines.
Recommendation	We recommend for the City to establish procedures and controls to ensure that approval is obtained from LACMTA prior to spending on any Local Return-funded projects.
Management's Response	The City concurs with the finding. The City will establish procedures and controls to ensure that Form A is properly submitted for approval prior to expending funds toward the projects.
Finding Corrected During the Audit	The City subsequently submitted a Form A and LACMTA Program Manager granted a retroactive approval of the increase in the project's budget on December 6, 2018. No follow up is required.

PALRF and PCLRF: CF Finding #2018-002

<p>Compliance Reference</p>	<p>Proposition A and Proposition C Local Return Guidelines Section II states that, "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". Also, Section V states that, "It is the jurisdictions' responsibility to maintain proper accounting records and documentation to facilitate the performance of the audit as prescribed in these Guidelines".</p> <p>On April 29, 2014, the LACMTA Local Return Program Manager issued a memo addressed to all Jurisdictions to provide clarification for adequate salary and related costs documentations for the audit of the Local Return funds.</p> <p>Below are recommendations to ensure that jurisdictions have adequate evidence to support its compliance with the Local Return Guidelines:</p> <ol style="list-style-type: none"> 1. All hours are required to be documented. Develop and/or maintain a system that will keep track of actual hours worked by employees whose salaries and benefits were charged to the LACMTA project. Expenditures claimed based solely on budgeted amounts is not considered adequate documentation because it does not reflect actual expenditures incurred on the LACMTA project and do not provide adequate evidence that labor hours charged has transit/transportation purpose. The record of hours worked must: a) identify the LACMTA project, b) be authenticated by the employee and approved by his/her immediate supervisor, and c) tie to hours reported in the payroll records. 2. Provide adequate support for indirect costs. For indirect expenditures allocated to LACMTA projects, develop and/or maintain a system that distributes allowable expenditures to projects based on causal or beneficial relationships. Expenditures cannot be claimed on LACMTA project if the expenditures are not allowable (i.e., not transportation or transit related) or not allocable to the LACMTA project (i.e., LACMTA project did not cause the incurrence of the expenditure or LACMTA project did not benefit from the expenditure).
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City of Compton
Schedule of Findings and Questioned Costs
Year ended June 30, 2018

PALRF and PCLRF: CF Finding #2018-002 (Continued)

Condition	<p>The City claimed salaries and benefits expenditures under the following projects:</p> <p>a) PALRF Project code 480-01, Memberships, Gateway Cities, I-710 Corridor (Formerly, 19-270), total amount of \$25,010; and</p> <p>b) PCLRF Project code 480-01, Memberships, Gateway Cities, I-710 Corridor (Formerly, 19-270), total amount of \$212,021.</p> <p>Salaries and benefits expenditures allocated to PALRF and PCLRF projects were not supported by actual time charges, documented time study, or overhead cost allocation plan. We were not able to verify the reasonableness and allowability of these expenditures under the Local Return Guidelines.</p> <p>In addition, the project description used by the City to report the above administration expenses were not correct. The project description should be "Administration Costs" instead of "Memberships, Gateway Cities, I-710 Corridor (Formerly, 19-270)".</p>
Cause	<p>Lack of oversight by City's management on the compliance with the requirements of the Guidelines. Moreover, there were turnover in the key positions in the finance and accounting department during the past fiscal years.</p>
Effect	<p>The City failed to put in place a time reporting system that documents actual time spent on PALRF and PCLRF projects.</p> <p>The salaries and benefits claimed under PALRF and PCLRF are not supported by actual time charges and documented time study and therefore, we question the total amount of expenditures reported under PALRF and PCLRF of \$25,010 and \$212,021, respectively.</p>
Recommendation	<p>We recommend that the City reimburse its PALRF and PCLRF accounts the amount of \$25,010 and \$212,021, respectively. In addition, we recommend that the City establish controls to ensure that the salaries and benefits charged to the Local Return funds are adequately supported by timesheets, payroll registers, personnel action forms with job descriptions, or similar documentation as required by the Guidelines.</p>

PALRF and PCLRF: CF Finding #2018-002 (Continued)

Management's Response	City staff provided actual time charges and documented activity sheets for the sample employees requested from the auditor. City staff will provide the e-mailed documents previously provided to substantiate some of the expenditures incurred during this audit period. Staff will however develop a cost allocation plan and/or actual costs for transportation funds pursuant to the recommendation provided by the audit team. The City will also establish controls to ensure that all salaries and benefits charged to the Local Return funds are adequately supported in the future.
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City of Compton
Schedule of Findings and Questioned Costs
Year ended June 30, 2018

PALRF: CF Finding #2018-003

Compliance Reference	According to Proposition A and Proposition C Local Return Guidelines, Section II, "A proposed expenditure of funds shall be deemed to be for public transit purposes to the extent that it can reasonably be expected to sustain or improve the quality and safety of and/or access to public transit services by the general public or those requiring special public transit assistance" and Section V, "It is jurisdiction's responsibility to maintain proper accounting records and documentation."
Condition	The City charged general liability insurance and self insurance liability amounting to \$127,240 and \$61,896 to PALRF project code 480-01, Memberships, Gateway Cities, I-710 Corridor (Formerly, 19-270) and PALRF project code 500-07, Self Insured Compton Employer, respectively, based on budget. An analysis to true-up the amounts claimed was not performed at yearend to support and substantiate the reasonableness of the amount charged to these projects.
Cause	Lack of oversight by City's management on the compliance with the requirements of the Guidelines. Moreover, there were turnover in the key positions in the finance and accounting department during the past fiscal years.
Effect	<p>The City did not perform a true-up analysis at year-end to ensure that general liability insurance costs charged to PALRF approximate the actual cost incurred.</p> <p>The amount charged to PALRF may not reflect the most reasonable cost relating to PALRF had an analysis is performed by the City at yearend.</p>
Recommendation	We recommend for the City to revisit its methodology for allocating the general liability and self insurance liability costs to all the funds and once it is established, the City does not necessarily have to update the methodology on an annual basis if the parameters did not change significantly from year to year. We recommend for the City to also reimburse its PALRF account the total amount of \$189,136.
Management's Response	The City will revisit its methodology for allocating the general liability and self insurance liability costs to all funds and provide the appropriate documentation to substantiate the Local Return guidelines. The City considers this allocation to be an eligible expense under the local return guidelines.

MRLRF: CF Finding #2018-004

Compliance Reference	<p>Measure R Local Return Guidelines Section (A) (I) states that, “The Measure R Ordinance specifies that LR funds are to be used for transportation purposes. No net revenues distributed to Jurisdictions may be used for purposes other than transportation purposes”. Also, Section VII states that, “It is the jurisdictions’ responsibility to maintain proper accounting records and documentation to facilitate the performance of the audit as prescribed in these Guidelines”.</p> <p>On April 29, 2014, the LACMTA Local Return Program Manager issued a memo addressed to all Jurisdictions to provide clarification for adequate salary and related costs documentations for the audit of the Local Return funds.</p> <p>Below are recommendations to ensure that jurisdictions have adequate evidence to support its compliance with the Local Return Guidelines:</p> <ol style="list-style-type: none"> 1. All hours are required to be documented. Develop and/or maintain a system that will keep track of actual hours worked by employees whose salaries and benefits were charged to the LACMTA project. Expenditures claimed based solely on budgeted amounts is not considered adequate documentation because it does not reflect actual expenditures incurred on the LACMTA project and do not provide adequate evidence that labor hours charged has transit/transportation purpose. The record of hours worked must: a) identify the LACMTA project, b) be authenticated by the employee and approved by his/her immediate supervisor, and c) tie to hours reported in the payroll records. 2. Provide adequate support for indirect costs. For indirect expenditures allocated to LACMTA projects, develop and/or maintain a system that distributes allowable expenditures to projects based on causal or beneficial relationships. Expenditures cannot be claimed on LACMTA project if the expenditures are not allowable (i.e., not transportation or transit related) or not allocable to the LACMTA project (i.e., LACMTA project did not cause the incurrence of the expenditure or LACMTA project did not benefit from the expenditure).
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City of Compton
Schedule of Findings and Questioned Costs
Year ended June 30, 2018

MRLRF: CF Finding #2018-004 (Continued)

Condition	<p>The City claimed salaries and benefits expenditures under Project code 8.10, Fund Administration, totaling to \$92,210.</p> <p>Salaries and benefits expenditures allocated to MRLRF were not supported by actual time charges, documented time study, or overhead cost allocation plan. We were not able to verify the reasonableness and allowability of these expenditures under the Local Return Guidelines.</p>
Cause	<p>There was lack of oversight by the City's management on the compliance with the requirements of the Guidelines. Moreover, there were turnover in the key positions in the finance and accounting department during the past fiscal years.</p>
Effect	<p>The City failed to put in place a time reporting system that documents actual time spent on Measure R Local Return projects.</p> <p>The salaries and benefits claimed under MRLRF are not supported by actual time charges and documented time study and therefore, we question the total amount of expenditures reported under MRLRF of \$92,210.</p>
Recommendation	<p>We recommend that the City reimburse its MRLRF account the amount of \$92,210. In addition, we recommend that the City establish controls to ensure that the salaries and benefits charged to the Local Return funds are adequately supported by timesheets, payroll registers, personnel action forms with job descriptions, or similar documentation as required by the Guidelines.</p>
Management's Response	<p>City staff provided actual time charges and documented activity sheets for the sample employees requested from the auditor. City staff will provide the e-mailed documents previously provided to substantiate some of the expenditures incurred during this audit period. Staff will however develop a cost allocation plan and/or actual costs for transportation funds pursuant to the recommendation provided by the audit team. The City will also establish controls to ensure that all salaries and benefits charged to the Local Return funds are adequately supported in the future. The City considers this allocation to be an eligible expense under the local return guidelines.</p>

City of Compton
Schedule of Findings and Questioned Costs
Year ended June 30, 2018

MRLRF: CF Finding #2018-005

Compliance Reference	Measure R Local Return Program Guidelines, Section B (VII. Audit Section) states that, "Jurisdictions are required to expend their Measure R Local Return funds for transportation purposes, as defined by the Guidelines" and "It is the Jurisdictions' responsibility to maintain proper accounting records and documentation."
Condition	The City charged general liability insurance costs amounting to \$120,520 to project code 8.10, Fund Administration, based on budget. An analysis to true-up the amount claimed was not performed at yearend to support and substantiate the reasonableness of the amount charged to this project.
Cause	Lack of oversight by City's management on the compliance with the requirements of the Guidelines. Moreover, there were turnover in the key positions in the finance and accounting department during the past fiscal years.
Effect	<p>The City did not perform a true-up analysis at year-end to ensure that general liability insurance costs charged to MRLRF approximate the actual cost incurred.</p> <p>The amount charged to MRLRF may not reflect the most reasonable cost relating to MRLRF.</p>
Recommendation	We recommend for the City to revisit its methodology for allocating the general liability insurance costs to all the funds and once it is established, the City does not necessarily have to update the methodology on an annual basis if the parameters did not change significantly from year to year. We recommend for the City to also reimburse its MRLRF account the amount of \$120,520.
Management's Response	The City will revisit its methodology for allocating the general liability insurance costs to all the funds and if requested by Metro, would consider reimbursing its MRLRF account in the amount of \$120,520.

City of Compton
Schedule of Findings and Questioned Costs
Year ended June 30, 2018

MRLRF: CF Finding #2018-006

<p>Compliance Reference</p>	<p>Section B (II) of Measure R Local Return Program Guideline states that, "To maintain legal eligibility and meet Measure R LR program compliance requirements, Jurisdiction shall submit to LACMTA an Expenditure Plan (Form One), annually, by August 1st of each year.</p> <p>Expenditure Plan (Form One) provides a listing of projects funded with Measure R LR funds along with estimated expenditures for the year. For both operating and capital projects, Part I is to be filled out. For capital projects (projects over \$250,000), Part II is required. Pursuant to AB2321, LACMTA will provide LR funds to a capital project or program sponsor who submits the required expenditure plan.</p>
<p>Condition</p>	<p>The City claimed expenditures for the following MRLRF projects with no prior approval from LACMTA:</p> <ul style="list-style-type: none"> a. Project code 1.05, Central Ave Rehabilitation Project, totaling \$325,830; b. Project code 3.20, Compton Creek Walking Path – ADA Compliance, totaling \$2,210; and c. Project code 8.10, Fund Administration, totaling \$212,730. <p>The City submitted a revised Expenditure Plan (Form One) to the LACMTA Program Manager and obtained retroactive approvals of the said projects on December 4, 2018 and December 27, 2018.</p>
<p>Cause</p>	<p>The City concurs with the finding that an Expenditure Plan (Form One) should have been submitted by August 1 for the projects that will be funded with Measure R. The finding was caused by an oversight by City staff.</p>
<p>Effect</p>	<p>The City claimed expenditures totaling \$540,770 without prior approval from LACMTA. Lack of prior approval results in non-compliance which could impact future funding or result in questioned costs that require funding to be returned to LACMTA.</p>
<p>Recommendation</p>	<p>We recommend for the City to establish procedures and controls to ensure that approval is obtained from LACMTA prior to spending on Measure R-funded projects.</p>

City of Compton
Schedule of Findings and Questioned Costs
Year ended June 30, 2018

MRLRF: CF Finding #2018-006 (Continued)

Management's Response	The City will establish procedures and controls to ensure that approval is obtained from LACMTA prior to spending Measure R funded projects. Specifically, in this instance, additional funding was needed from Measure R on a previously Metro approved Prop C project.
Finding Corrected During the Audit	LACMTA Program Manager granted retroactive approvals of the said projects on December 4, 2018 and December 27, 2018. No additional follow up is required.

City of Compton
Schedule of Findings and Questioned Costs
Year ended June 30, 2018

MRLRF: CF Finding #2018-007

Compliance Reference	Measure R Local Return Program Guidelines Section A(II)(8) states that, "Transportation Administration expenditures are those administrative costs associated with and incurred for the aforementioned eligible projects/program. Direct administration expenditures include those fully burdened costs that are directly associated with administering LR program or projects, and includes salaries and benefits, office supplies and equipment, and other overhead costs. All costs must be associated with developing, maintaining, monitoring, and coordinating, reporting and budgeting specific LR project(s). Expenditures must be reasonable and appropriate to the activities undertaken by the locality. The administrative expenditures for any year shall not exceed twenty percent (20%) of the total LR annual expenditures".
Condition	The City's administration expenditures exceeded more than 20 percent of its MRLRF total annual local return expenditures by \$130,720.
Cause	The City is aware of the 20% limit of actual expenditures on Direct Administration. However, budgeted project expenditures were lower than expected which reduced the threshold for allowable administrative costs.
Effect	Administrative expenses that exceeded 20% of the total annual local return expenditures are not allowable expenditures under the Measure R Local Return Program Guidelines.
Recommendation	We recommend for the City to establish procedures to ensure that administrative expenditures claimed under the local return funds be limited to 20 percent of the fund's total annual expenditures. The excess amount of \$130,720 was part of the questioned cost in CF Findings #2018-004 and #2018-005 which was recommended to be reimbursed to the MRLRF account.
Management's Response	The City will establish procedures that will ensure greater control of the administrative expenditures claimed under the Local Return funds to be limited to 20 percent of the fund's total annual expenditures.

EXIT CONFERENCE

An exit conference was held on January 16, 2019 with the City of Compton representatives. Those in attendance were:

Vasquez and Company LLP representatives:
Roger Martinez – Audit Partner
Marialyn Salvador – Audit Senior Manager

City of Compton representatives:
Rafaela King – Controller
Christopher Sutton – Deputy Controller
Maria David – Internal Auditor
Jocelyn Logan - Accountant

Matters discussed:

Results of the audit disclosed instances of noncompliance with the Guidelines.

A copy of this report was forwarded to the following City of Compton representatives for comments prior to the issuance of the final report:

Rafaela King – Controller
Christopher Sutton – Deputy Controller
Maria David – Internal Auditor
Jocelyn Logan - Accountant
Michelle Blue – Accountant
John Strickland – Project Manager



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