



**METROLINK®**

**Southern California Regional Rail Authority (SCRRRA)**

**Report on Compliance with the Requirements of the  
Metrolink Program by SCRRRA  
For the Year Ended June 30, 2018**

**under Memorandum of Understanding (MOU) No. P0SCRRRA28  
with the Los Angeles County Metropolitan Transportation Authority  
(LACMTA)**

**Southern California Regional Rail Authority (SCRRA)**

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(LACMTA)**

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**FINANCIAL SECTION**

## **Independent Accountant's Report**

### **To the Board of Directors of the Los Angeles County Metropolitan Transportation Authority (LACMTA)**

#### **Report on the Examination of Metrolink Program by SCRRA**

We have examined the Southern California Regional Rail Authority's (SCRRA) compliance with the following requirements identified in the Memorandum of Understanding (MOU) No. P0SCRRA28 between SCRRA and the Los Angeles County Metropolitan Transportation Authority (LACMTA), the SCRRA Adopted Budget for the year ended 2017/2018 and other guidelines issued related to the SCRRA Program (collectively, the Guidelines). The following requirements are applicable to SCRRA's allocation of revenues and expenditures to LACMTA for the year ended June 30, 2018:

1. LACMTA's share in the Schedule of Subsidy Allocation by County is free of material discrepancies.
2. The total revenues and expenditures shown in the Schedule of Subsidy Allocation by County provided by SCRRA are in agreement, in all material respects, with the SCRRA's Comprehensive Annual Financial Report (CAFR). (See Exhibit I)
3. The allocation methods used by SCRRA to allocate revenues and expenditures are in conformance with the allocation methods adopted by the joint authorities and are applied consistently to allocate revenues and expenses. (See Exhibits II and III)
4. The Proposition C 10% and Measure R 3% funds received from LACMTA are recorded in SCRRA's books. (see Exhibit IV)
5. The Proposition C 10% and Measure R 3% funds received are expended for purposes identified in the SCRRA's Annual Work Program, capital grants, other operating assistance, adopted language MOU(s) and the SCRRA adopted budget.
6. LACMTA's contribution to the Self Insurance Reserve (SIR) was made in accordance with the appropriate member agency allocation formula, and that claims against the SIR were appropriate uses of funds. (See Exhibit VI)
7. SCRRA's third party participation contracts do not materially impact LACMTA's share of revenues and expenditures. (See Exhibit I)
8. SCRRA complied with all applicable ordinances.



9. The following requirements are not applicable to SCRRA's allocation of revenues and expenditures to LACMTA for the year ended June 30, 2018 because there were no transactions that have occurred relating to these requirements. Accordingly, no procedures were performed for these requirements.
  - a. LACMTA's contribution to the annual capital replacement program is properly accounted for, is bearing interest, and is solely allocated for this purpose.
  - b. LACMTA's allocation of revenue from interest income on lease proceeds is consistent with the allocation formula adopted in the budget.

### ***Management's Responsibility***

Management of SCRRA is responsible for compliance with the specified requirements, as well as the compliance requirements shown in the Compliance Matrix.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on SCRRA's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether SCRRA complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether SCRRA complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on SCRRA's compliance with specified requirements.

### ***Opinion***

In our opinion, SCRRA complied, in all material respects, with the aforementioned requirements established in the Guidelines, for the year ended June 30, 2018.

### ***Other Matters***

The results of our examination procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Guidelines and which are described in the accompanying Compliance Matrix. Our opinion is not modified with respect to these matters.

Responses by the SCRRA to the noncompliance findings identified in our examination are described in the accompanying Compliance Matrix. The SCRRA's responses were not subjected to the procedures applied in the examination of compliance, and accordingly, we express no opinion on the responses.



***Required Supplementary Information***

The Schedule of Subsidy Allocation by County and the related Notes to the Schedule were presented as required by the MOU and the Guidelines. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements which were audited by other auditors, whose report dated December 31, 2018 expressed an unmodified opinion on those statements, and other knowledge we obtained during our examination of compliance. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

This report is intended solely for the information and use of SCRRA and LACMTA and is not intended to be and should not be used by anyone other than these specified parties.

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

**Glendale, California  
March 7, 2019**

**Southern California Regional Rail Authority (SCRRRA)**  
**MOU No. P0SCRRRA28**  
**Schedule of Subsidy Allocation by County**  
**Year ended June 30, 2018**

	<u>TOTAL</u>	<u>LACMTA</u>	<u>OCTA</u>	<u>RCTC</u>	<u>SANBAG</u>	<u>VCTC</u>
<b>OPERATING REVENUES</b>						
Fares	\$ 82,698,632	\$ 40,544,177	\$ 21,927,819	\$ 7,597,924	\$ 10,303,044	\$ 2,325,668
Dispatching	2,132,855	1,106,797	699,406	7,597	62,871	256,184
Maintenance-of-Way	12,788,918	7,566,766	2,498,677	668,248	1,540,859	514,368
Miscellaneous	463,278	218,411	95,257	54,620	64,165	30,825
<b>Total Operating Revenues</b>	<u>98,083,683</u>	<u>49,436,151</u>	<u>25,221,159</u>	<u>8,328,389</u>	<u>11,970,939</u>	<u>3,127,045</u>
<b>OPERATING EXPENSES</b>						
Train operations and services	130,581,939	65,685,212	30,652,547	14,681,304	14,075,537	5,487,339
Maintenance-of-Way	43,004,555	23,131,364	8,590,166	2,945,117	5,845,132	2,492,776
Personal liability/property damage	18,883,070	10,068,992	4,586,960	1,434,311	2,165,858	626,949
Administration and services	40,432,243	19,380,995	7,280,784	5,778,100	4,288,685	3,703,679
<b>Total Operating Expenses</b>	<u>232,901,807</u>	<u>118,266,563</u>	<u>51,110,457</u>	<u>24,838,832</u>	<u>26,375,212</u>	<u>12,310,743</u>
<b>OPERATING LOSS</b>	(134,818,124)	(68,830,412)	(25,889,298)	(16,510,443)	(14,404,273)	(9,183,698)
<b>FY2017/2018 MEMBER SUBSIDY INVOICED</b>	<u>142,398,818</u>	<u>71,658,558</u>	<u>28,238,881</u>	<u>17,705,400</u>	<u>14,959,772</u>	<u>9,836,207</u>
<b>NET SURPLUS</b>	<u>\$ 7,580,694</u>	<u>\$ 2,828,146</u>	<u>\$ 2,349,583</u>	<u>\$ 1,194,957</u>	<u>\$ 555,499</u>	<u>\$ 652,509</u>

*See notes to Schedule of Subsidy Allocation by County.*



**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

SCRRA is an independent entity created in August 1991 through a joint exercise of powers agreement (JPA). SCRRA began operating the “Metrolink” regional commuter rail system in October 1992. The member agencies of the JPA are (1) Los Angeles County Metropolitan Transportation Authority (LACMTA), (2) Orange County Transportation Authority (OCTA), (3) Riverside County Transportation Commission (RCTC), San Bernardino Associated Governments (SANBAG), and (4) Ventura County Transportation Commission (VCTC). The member agencies acquired the rail network in existence at the time the JPA was established for use in Metrolink’s commuter rail operations. This railroad network is not included as part of SCRRA’s railroad network capital assets. The member agencies retain title to and ownership of those assets. As part of the JPA, SCRRA is responsible for the related maintenance and operation of members’ assets and rail right-of-way used in operations.

In addition, certain members retain responsibility to maintain segments of their railroad network. The Metrolink railroad network consists of capital assets created as a result of new capital construction and major capital improvement projects. Currently, there are 534 route miles with 59 stations in the Metrolink system throughout Los Angeles, Orange, Riverside, San Bernardino, Ventura, and San Diego counties.

SCRRA is governed by a Board of Directors comprised of 11 members appointed by the voting members of the JPA. The member agencies with their respective number of votes are as follows:

Los Angeles County Metropolitan Transportation Authority (LACMTA)	4
Orange County Transportation Authority (OCTA)	2
Riverside County Transportation Commission (RCTC)	2
San Bernardino Associated Governments (SANBAG)	2
Ventura County Transportation Commission (VCTC)	1

SCRRA is not considered to be a component unit of any other reporting entity.

**Basis of Accounting**

Revenues and expenditures are accounted for using the accrual basis of accounting. Revenues from grants are recognized when expenditures are incurred. Expenditures are generally recognized when the related liabilities are incurred.

**Revenue Recognition**

SCRRA receives approximately half of its funding from fares and other operating revenues, and the balance of its funding comes from its member agencies. The majority of sources for transportation funds in these counties are local sales taxes (with the exception of Ventura County), State Rail Bond funds, State Transit Assistance funds, State Highway Account funds, State Transit Capital Improvement funds, and Federal Transit Administration Capital funds.

**Southern California Regional Rail Authority (SCRRA)**  
**MOU No. P0SCRRA28**  
**Notes to Schedule of Subsidy Allocation by County**  
**Year ended June 30, 2018**

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**NOTE 2            MEMORANDUM OF UNDERSTANDING (MOU)**

SCRRA (grantee) and the Los Angeles County Metropolitan Transportation Authority (LACMTA) (grantor) entered into MOU No. P0SCRRA28, which is effective beginning July 1, 2017 through June 30, 2021, for the purpose of providing funding to SCRRA during the fiscal year (FY) 2017/2018 for LACMTA's financial commitments to the FY 2017/2018 budget as required by the JPA. LACMTA's Board of Directors approved its financial commitments on June 22, 2017.

In accordance with MOU No. P0SCRRA28, LACMTA will make available to SCRRA the following allocation of funds (Funds) for the LACMTA's share of the FY 2017/2018 budget in the amounts of:

- a. \$71,659,000 for rail operations, using new Proposition C 10% funds paid according to the following schedule, unless altered by mutual written agreement:

July 15,2017	\$ 22,903,552
October 1,2017	16,251,669
January 1, 2018	16,251,669
April 1, 2018	<u>16,251,668</u>
Total \$	<u>71,658,558</u>

- b. \$2,360,550 for right-of-way security, using new Proposition C 10% funds;
- c. \$6,819,000 for new rehabilitation and renovation projects, using new Measure R 3% funds and \$206 shall be deducted from FY2015-16 operating surplus funds already in SCRRA's possession; and
- d. \$250,000 for one-time special events, using new Proposition C 10% funds.

The FY 2017/2018 member subsidy invoiced to LACMTA of \$71.7 million reported in the Schedule of Subsidy Allocation by County is part of the above funds allocated to SCRRA.

**Southern California Regional Rail Authority (SCRRRA)**  
**MOU No. P0SCRRRA28**  
**Notes to Schedule of Subsidy Allocation by County**  
**Year ended June 30, 2018**

**NOTE 2 MEMORANDUM OF UNDERSTANDING (CONTINUED)**

Details of the receipts and uses of funds for the year ended June 30, 2018 are as follows:

<u>Fund</u>	<u>Description</u>	<u>[a]</u> <u>Approved</u> <u>Funding</u>	<u>[b]</u> <u>Receipts</u>	<u>[=a - b]</u> <u>Funding</u> <u>Balance</u>	<u>[c]</u> <u>Expenditures</u>	<u>[=b - c]</u> <u>Surplus/</u> <u>(Deficit)</u>
Prop C 10%	Operations	\$ 71,658,558	\$ 71,658,558	\$ -	\$ 68,421,032	\$ 3,237,526
Prop C 10%	Right of Way	2,360,550	2,310,828	49,722	2,310,789	39 **
Measure R 3%	Rehabilitation and renovation	6,819,206	-	6,819,206	2,127	(2,127)
Prop C 10%	Special Event	250,000	-	250,000	125,894	(125,894) ***
		<u>\$ 81,088,314</u>	<u>\$ 73,969,386</u>	<u>\$ 7,118,928</u>	<u>\$ 70,859,842</u>	<u>\$ 3,109,544</u>

\*\* See Exhibit VII.

\*\*\* \$45,209 was billed and uncollected as of June 30, 2018.

**NOTE 3 STATUS OF PRIOR YEAR'S MEMORANDUM OF UNDERSTANDING**

Details of the receipts and uses of funds of prior years' open MOUs are as follows:

<u>MOU# P0SCRRRA27</u>			<u>[a]</u> <u>Approved</u> <u>Funding</u>	<u>[b]</u> <u>Receipts</u>	<u>[=a - b]</u> <u>Funding</u> <u>Balance</u>	<u>[c]</u> <u>Expenditures</u>	<u>[=b - c]</u> <u>Surplus/</u> <u>(Deficit)</u>
<u>Fund</u>	<u>Description</u>	<u>Year</u>					
Prop C 10%	Operations	2017	\$ 71,795,000	\$ 71,795,000	\$ -	\$ 66,497,200	\$ 5,297,800
		2018	-	-	-	-	-
Prop C 10%	Right of Way	2017	2,360,551	2,360,551	-	2,358,526	2,025
		2018	-	-	-	-	-
Measure R 3%	Rehabilitation and renovation	2017	28,381,025	-	28,381,025	4,028,759	(4,028,759)
		2018	-	10,902,866	17,478,159	16,058,677	(5,155,811)
Measure R 3%	Capital Project PSRs	2017	618,000	-	618,000	-	-
		2018	-	-	-	-	-
Prop C 10%	Special Event	2017	100,000	-	100,000	55,394	(55,394) *
		2018	-	63,716	36,284	8,322	55,394
			<u>\$ 103,254,576</u>	<u>\$ 85,122,133</u>	<u>\$ 18,132,443</u>	<u>\$ 89,006,878</u>	<u>\$ (3,884,745)</u>

\* \$55,394 was billed and uncollected as of June 30, 2017

**Southern California Regional Rail Authority (SCRRRA)**  
**MOU No. P0SCRRRA28**  
**Notes to Schedule of Subsidy Allocation by County**  
**Year ended June 30, 2018**

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**NOTE 3            STATUS OF PRIOR YEARS' MEMORANDUM OF UNDERSTANDING  
(CONTINUED)**

<u>MOU# P0SCRRRA26</u>			[a]	[b]	[=a - b]	[c]	[=b - c]
<u>Fund</u>	<u>Description</u>	<u>Year</u>	<u>Approved Funding</u>	<u>Receipts</u>	<u>Funding Balance</u>	<u>Expenditures</u>	<u>Surplus/ (Deficit)</u>
Prop C 10%	Operations	2016	\$ 71,795,790	\$ 71,795,790	* \$ -	\$ 66,468,865	\$ 5,326,925
		2017	-	-	-	-	-
		2018	-	-	-	-	-
Prop C 10%	Right of Way	2016	2,578,128	2,578,128	-	2,237,060	341,068
		2017	-	-	-	-	-
		2018	-	-	-	-	-
Prop C 10%	Capital Project PSRs	2016	475,000	-	475,000	-	-
		2017	-	189,619	285,381	210,421	(20,802)
		2018	-	20,886	264,495	-	20,886
Prop C 10%	Special Event	2016	100,000	-	100,000	19,953	(19,953)
		2017	-	19,953	80,047	-	19,953
		2018	-	-	-	3,436	(3,436)
			<u>\$ 74,948,918</u>	<u>\$ 74,604,376</u>	<u>\$ 344,542</u>	<u>\$ 68,939,735</u>	<u>\$ 5,664,641</u>

\* includes \$3,013,939 surplus from deferred revenue  
Note: No Measure R funding under P0SCRRRA26.

## **EXHIBITS**

**Southern California Regional Rail Authority (SCRRA)**  
**MOU No. P0SCRRA28**  
**Reconciliation of the Schedule of Subsidy Allocation to CAFR**  
**Year ended June 30, 2018**

	<u>Revenues</u>	<u>Expenses</u>
Per Schedule of Subsidy Allocation	\$ 98,083,683	\$ 232,901,807
<u>Reconciling items:</u>		
OPERATING:		
Fare Revenues	(22,446)	-
Maintenance of Way	3,150	867,670
Train Operations	-	(1,827,788)
Third party agreements <sup>(1)</sup>	22,641,070	24,508,000
Rehabilitation and renovation - capital <sup>(1)</sup>	-	39,598,427
Miscellaneous	(258,883)	-
Public liability and property damage	4,210,634	4,212,646
Depreciation <sup>(1)</sup>	-	47,785,546
Benefit for claims, judgements, and other	-	4,003,570
Per CAFR - Operating Revenues and Expenses	<u>\$ 124,657,208</u>	<u>\$ 352,049,878</u>

## Notes:

<sup>(1)</sup> Not allocated to the members

Revenues and expenses in the Schedule of Subsidy Allocation by County do not include revenues and expenses relating to Third-party participation agreements.

Third-party participation agreements are items such as charter train services, construction of major capital facilities on behalf of third parties, and flagging personnel provided by SCRRA for the safety of non-SCRRA personnel accessing the rail right-of-way. SCRRA's policy regarding third-party agreements is that they should be self-supporting. Projects are billed up-front to third parties and a reconciliation of actual costs against payments are reconciled at project completion. The excess of expenses over revenue is attributed by SCRRA to advance collections in prior years as well as for billing adjustments related to overhead.

**Southern California Regional Rail Authority (SCRRA)**  
**MOU No. P0SCRRRA28**  
**Methods of Allocation Used and the Types of Revenues and Expenses**  
**Year ended June 30, 2018**

Budget Item	FY17-18 Agreed Allocation
Train Mile Allocation	
Train Operations	Train Miles - Current
Fuel	Train Miles - Current
Operating Contingency	Train Miles - Current
Direct to Line Segments/Territories	
Rail Agreements	Direct to Lines/Then to Members
MOW - Line Segments	Train Miles of Service on Territory
MOW - Extra-Ordinary maintenance	Train Miles of Service on Territory
Holiday Trains	Direct to Lines/Then to Members
Amtrak Transfers	Direct to Lines/Then to Members
Route Miles Dispatched	
Dispatching	Route Miles Dispatched
Ridership/Revenue Distributions	
Transfers to other Operators	Ridership/Revenue Distribution
Supplemental Additional Security	Ridership/Revenue Distribution
Base Allocation	
Equipment Maintenance	75% Train Miles - Lagged/25% Unduplicated Stations
Operating Contingency (Bombardier)	Train Miles - Lagged
Non-Scheduled Rolling Stock Repairs	Train Miles - Lagged
Operating Facilities Maintenance	Train Miles - Lagged
Other Operating Train Services	Unduplicated Route Miles (excl SD Co)
Security - Sheriff	Train Miles - Lagged
Security - Guards	Unduplicated Route Miles (excl SD Co)
Public Safety Program	Unduplicated Route Miles (excl SD Co)
Utilities/Leases	Unduplicated Route Miles (excl SD Co)
Passenger Relations - Call Boxes	Unduplicated Stations
Contingency (Non-Train Operating)	Unduplicated Route Miles (excl SD Co)
TVM Maintenance/Revenue Collection	TVMS
Station Maintenance - Non-Union Station	Unduplicated Stations
Station Maintenance - Union Station	Revenue Moves thru LAUS
Passenger Service Representatives	Unduplicated Route Miles (excl SD Co)
Passenger Relations - Call Center/Other	Ridership Distribution Lagged
Marketing/Market Research	Ridership Distribution Lagged
Media and External Communications	Unduplicated Route Miles (excl SD Co)
Liability/Property/Auto	Train Miles - Lagged
Claims	Train Miles - Lagged
Claims Administration	Train Miles - Lagged
Salaries and Fringe Benefits	Unduplicated Route Miles (excl SD Co)
Non-Labor Costs	Unduplicated Route Miles (excl SD Co)
Allocated Overhead	Unduplicated Route Miles (excl SD Co)
Services	Unduplicated Route Miles (excl SD Co)

**Southern California Regional Rail Authority (SCRRA)**

**MOU No. P0SCRRA28**

**Line Item Allocation Methodology**

**Year ended June 30, 2018**

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The FY 2017-2018 Budget was created using the Line Item Allocation Methodology outlined in Exhibit II. The sum of all individual line item allocations resulted in a total expense bottom line percentage allocation rate.



**Southern California Regional Rail Authority (SCRRRA)**  
**MOU No. P0SCRRRA28**  
**Schedule of Funds Received for Proposition C 10% and Measure R 3%**  
**Year ended June 30, 2018**

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		<u>Receipts for FY 2017-2018</u>
Proposition C 10% Fund		
P0SCRRRA21	\$	163,267
P0SCRRRA22		238,954
P0SCRRRA23		421,969
P0SCRRRA24		1,851,912
P0SCRRRA25		2,694,073
P0SCRRRA26		36,676
AVLFARERED		839,352
AVL100FARE		4,398,714
P0SCRRRA27		10,949,824
P0SCRRRA28		73,391,679
Total		<u>94,986,420</u>
Measure R 3% Fund		
MRSCCRA01		323,479
MRSCCRA07		683,837
VANNUYS01		6,217
MRSCCRA10		1,081,187
MRSCCRA11		964,144
MRSCCRA12		3,222,603
MRBRIGHTRX		19,990
MRROTEMSET		960,103
SCRRAADV		569,638
MRBHAHWWAY		192,496
LHWSCRRA		41,177
SR14		346,887
SCRRAMRGXS		6,586
SCRRAMRLUS		223,909
SLFS		18,595
Total		<u>8,660,848</u>
Total funds received	\$	<u><u>103,647,268</u></u>

**Southern California Regional Rail Authority (SCRRA)**  
**MOU No. P0SCRRA28**  
**Comparative Analysis of Unearned Revenue**  
**(Dollar Amounts in Thousands)**  
**Year ended June 30, 2018**

	<u>LACMTA</u>	<u>OCTA</u>	<u>RCTC</u>	<u>SANBAG</u>	<u>VCTC</u>	<u>OTHER</u>	<u>TOTAL</u>
<b>Unearned revenue at June 30, 2016</b>	<b>\$ 11,287</b>	<b>\$ 7,245</b>	<b>\$ 1,222</b>	<b>\$ 4,859</b>	<b>\$ (9,691)</b>	<b>\$ 38,906</b>	<b>\$ 53,828</b>
Subsidies invoices:							
Operating	63,009	24,232	16,117	12,887	8,957	-	125,202
Public liability and property damage	8,989	4,062	1,228	1,954	554	-	16,787
Capital	-	-	-	-	-	7,703	7,703
Other	475	-	-	-	-	-	475
Subsidies recognized:							
Operating	(57,458)	(20,782)	(14,442)	(11,203)	(8,733)	-	(112,618)
Public liability and property damage	(9,039)	(4,085)	(1,234)	(1,965)	(557)	-	(16,880)
Capital	182	920	(31)	517	(63)	(15,729)	(14,204)
Other	4	-	-	-	-	(134)	(130)
Operating surplus activity	(385)	(1,682)	(831)	-	-	-	(2,898)
Interest Allocation	9	-	-	2	1	223	235
Adjustment - FY 2016 expense allocation	(198)	(80)	181	(174)	271	-	-
Adjustment - VCTC/LACMTA swap	-	-	-	-	4,316	-	4,316
Adjustment - VCTC/LACMTA fund exchange	-	-	-	-	5,803	-	5,803
<b>Unearned revenue at June 30, 2017</b>	<b>\$ 16,875</b>	<b>\$ 9,830</b>	<b>\$ 2,210</b>	<b>\$ 6,877</b>	<b>\$ 858</b>	<b>\$ 30,969</b>	<b>\$ 67,619</b>
Subsidies invoices:							
Operating	62,241	23,949	16,363	12,934	9,250	-	124,737
Public liability and property damage	9,418	4,290	1,342	2,026	586	-	17,662
Capital	-	-	-	-	-	30,589	30,589
Other	-	6,000	-	9,000	7,284	-	22,284
Subsidies recognized:							
Operating	(58,352)	(21,116)	(15,774)	(12,158)	(8,535)	-	(115,935)
Public liability and property damage	(10,069)	(4,587)	(1,434)	(2,166)	(627)	-	(18,883)
Capital	(221)	-	-	(190)	45	(20,901)	(21,267)
Other	-	-	-	-	-	(140)	(140)
Federal subsidies	-	(6,000)	-	(9,000)	(7,284)	-	(22,284)
Operating surplus activity	(3,387)	(24)	(532)	7,133	(675)	-	2,515
Capital surplus activity	(1,132)	(1,149)	24	962	(41)	(484)	(1,820)
Interest allocation	21	-	-	2	2	(25)	-
Adjustment - FY 2018 VCTC/LACMTA swap	-	-	-	-	769	-	769
<b>Unearned revenue at June 30, 2018</b>	<b>\$ 15,394</b>	<b>\$ 11,193</b>	<b>\$ 2,199</b>	<b>\$ 15,420</b>	<b>\$ 1,632</b>	<b>\$ 40,008</b>	<b>\$ 85,846 *</b>
<i>* Breakdown per activity</i>							
<b>Unearned revenue components:</b>							
Operating surplus (deficit)	\$ 3,387	\$ 2,536	\$ 498	\$ 635	\$ 675	\$ -	\$ 7,731
Preventative maintenance surplus	-	6,000	-	9,000	7,284	-	22,284
Capital projects and surplus	12,007	2,657	1,701	5,785	(6,327)	40,008	55,831
<b>Unearned revenue, June 30, 2018</b>	<b>\$ 15,394</b>	<b>\$ 11,193</b>	<b>\$ 2,199</b>	<b>\$ 15,420</b>	<b>\$ 1,632</b>	<b>\$ 40,008</b>	<b>\$ 85,846</b>

**Southern California Regional Rail Authority (SCRRRA)**  
**MOU No. P0SCRRRA28**  
**Schedule of LACMTA's Contribution to the Self Insurance Reserve**  
**Year ended June 30, 2018**

	<u>TOTAL</u>	<u>LACMTA</u>	<u>OCTA</u>	<u>RCTC</u>	<u>SANBAG</u>	<u>VCTC</u>
Member insurance subsidy	\$ 17,662,779	\$ 9,417,794	\$ 4,290,289	\$ 1,342,371	\$ 2,025,921	\$ 586,404
Insurance expense						
Liability/Property/Auto	9,747,594	5,197,696	2,367,826	740,403	1,118,033	323,636
Claims/SI	8,550,608	4,559,428	2,077,062	649,483	980,741	283,894
Claims administration	584,868	311,868	142,073	44,425	67,083	19,419
Total insurance expense	<u>18,883,070</u>	<u>10,068,992</u>	<u>4,586,961</u>	<u>1,434,311</u>	<u>2,165,857</u>	<u>626,949</u>
Deficit	\$ (1,220,291)	\$ (651,198)	\$ (296,672)	\$ (91,940)	\$ (139,936)	\$ (40,545)

**Southern California Regional Rail Authority (SCRRRA)**  
**MOU No. P0SCRRRA28**  
**Schedule of LACMTA's Allocation of Revenue from Right of Way – Security Cost**  
**Year ended June 30, 2018**

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Schedule of receipts from LACMTA for Right-of-Way Security	
July 15, 2017	\$ 577,707
October 15, 2017	577,707
January 1, 2018	577,707
April 1, 2018	577,707 *
Total receipts	<u>2,310,828</u>
Right-of-Way Security Expenditures	
Quarter 1	577,697
Quarter 2	577,697
Quarter 3	577,697
Quarter 4	577,698
Total expenditures	<u>2,310,789</u>
Surplus	<u>\$ 39</u>

\* \$577,707 was billed and uncollected as of June 30, 2018.

## COMPLIANCE MATRIX

**Southern California Regional Rail Authority (SCRRA)**  
**MOU No. P0SCRRA28**  
**Compliance Matrix**  
**Year ended June 30, 2018**

	Compliance Requirement	In Compliance			Questioned Costs	If no, provided details and management response
		Yes	No	N/A		
1.	SCRRA submitted its FY 2017-2018 Preliminary Budget on May 1, 2017, and their revised budget on May 18, 2017, to the LACMTA and other member agencies of the SCRRA.	X				
2.	Right-of-Way security funds, not to exceed \$2,360,550, will be paid for additional right-of-way security ("ROW Security") on all LACMTA-owned right-of-way upon which Metrolink service operates.	X				
3.	SCRRA, Los Angeles County Sheriff Department (LASD) and LACMTA staff shall conduct a ROW Security review meeting each quarter. At each quarterly meeting, SCRRA and LASD shall provide the LACMTA with a summary of incident reports, deployment schedules and a Los Angeles County mitigation plan to improve ROW security. SCRRA shall provide report outlining LASD performance and adherence to the SCRRA / LASD contract requirements.		X			See Finding #2018-001
4.	SCRRA shall ensure that LASD complies with all insurance requirements of the LASD / SCRRA contract. Further, SCRRA represents that it is self-insured to the extent required to cover its indemnification obligation.	X				
5.	Rehabilitation and renovation funds in the amount of \$6,819,000 in Measure R 3% funds and \$206 from FY 2015-2016 will be paid for FY 2017-2018 new projects as specified in the Attachment A of the MOU No. P0SCRRA28.	X				

**Southern California Regional Rail Authority (SCRRA)**  
**MOU No. P0SCRRA28**  
**Compliance Matrix**  
**Year ended June 30, 2018**

	Compliance Requirement	In Compliance			Questioned Costs	If no, provided details and management response
		Yes	No	N/A		
6.	<p>SCRRA shall adhere to the following guidelines for invoicing and managing of rehabilitation and renovation projects for FY 2017-2018:</p> <p>a.) SCRRA shall invoice LACMTA on a quarterly basis for reimbursement of eligible expenses by submitting a quarterly progress/expenditure report. Each invoice and accompanying quarterly progress / expenditure report shall include sufficient back up documentation to the project level so that expenses can be tracked on a project by project basis. Documentation shall include copies of vendor invoices, material acquired, timesheets, and any other documentation to justify payment to SCRRA.</p> <p>b.) SCRRA invoices shall not exceed the FY2017-2018 budgeted amount of \$6,819,206. However, only \$6,819,000 will be invoiced to LACMTA and \$206 will be deducted from FY 2015-2016 surplus.</p> <p>c.) SCRRA and LACMTA staff shall conduct a rehabilitation/renovation review meeting each quarter.</p>	X				See Finding #2018-002

**Southern California Regional Rail Authority (SCRRA)**  
**MOU No. P0SCRRA28**  
**Compliance Matrix**  
**Year ended June 30, 2018**

	Compliance Requirement	In Compliance			Questioned Costs	If no, provided details and management response
		Yes	No	N/A		
6.	<p>d.) SCRRA shall provide a list of rehabilitation / renovation projects for FY2018-2019 to the LACMTA by January 31, 2018.</p> <p>e.) Rehabilitation/renovation funds allocated for FY2017-2018 are subject to lapse on June 30, 2021. Any unexpended funds will be reprogrammed by the LACMTA Board.</p> <p>f.) Final Invoices for FY2017-2018 must be submitted by December 31, 2021.</p>	X				
7.	No FY 2017-2018 LACMTA funds shall be used for previously funded projects except as provided in Article 6 of the MOU No. P0SCRRA28.	X				
8.	Modifications that do not materially affect the terms of this MOU, such as redistributing funds among existing budget line items or non-material schedule changes must be formally requested by the SCRRA by utilizing the Project Budget Reallocation Form (PBR) and approved in writing by the LACMTA before such modification can be implemented.			X		
9.	SCRRA may loan or exchange the LACMTA funds to or between one or more other member agencies, provided certain conditions are met.			X		
10.	SCRRA shall only utilize funding for the specific line items of their approved operating budget.	X				



**Southern California Regional Rail Authority (SCRRA)**  
**MOU No. P0SCRRA28**  
**Compliance Matrix**  
**Year ended June 30, 2018**

	Compliance Requirement	In Compliance			Questioned Costs	If no, provided details and management response
		Yes	No	N/A		
11.	SCRRA is to provide a detailed schedule of all funds included in the Deferred Revenue account. The detailed schedule of the Deferred Revenue account shall include a beginning balance by fund type, activities during the fiscal year by project and fund type (e.g., Proposition C, Measure R, Measure M, PTMSEA, etc.) and an ending balance for each fund type.		X			See Finding #2018-003
12.	SCRRA shall make the records available in such a manner that LACMTA auditors can complete the draft FY 2017-2018 audit by February 28, 2019.	X				
13.	LACMTA and SCRRA will at all times comply with the provisions of the JPA.	X				
14.	SCRRA has submitted evidence of insurance to the satisfaction of the LACMTA. SCRRA shall maintain, for the duration of this MOU, and/or shall require that SCRRA contractors maintain, levels of insurance coverage equivalent to existing coverage against claims for injuries to persons, or damages to property, which may arise from or in connection with SCRRA rail operations or construction by the SCRRA, its agents, representatives, employees or subcontractors on the LACMTA property.	X				
15.	Invoices referencing MOU number 940000000P0SCRRA28 shall be sent to the locations provided on the MOU.	X				

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Finding #2018-001: ROW Security Quarterly Review Meeting**

**Criteria**

Article 2(c) of the MOU No. P0SCRRA28 states that, "SCRRA, LASD and LACMTA staff shall conduct a ROW Security review meeting each quarter. At each quarterly meeting, SCRRA and LASD shall provide LACMTA with a summary of incident reports, deployment schedules and a Los Angeles County mitigation plan to improve ROW security. SCRRA shall provide report outlining LASD performance and adherence to the SCRRA/LASD contract requirements."

**Condition**

No quarterly ROW Security review meetings were held during the fiscal year 2017/2018. The required quarterly reports were also not provided.

**Cause**

SCRRA personnel were not aware of this requirement under the MOU.

**Effect**

SCRRA is not in compliance with the requirements of the MOU No. P0SCRRA28.

**Recommendation**

We recommend that SCRRA communicate the requirements of the Memorandum of Understanding to all key personnel responsible for each of the compliance areas. It is also recommended that a regularly scheduled meeting be held for all responsible personnel to discuss and review the requirements and meeting schedules in their respective areas for better flow of information.

**Management's Response**

SCRRA personnel were not aware of this requirement under the MOU. Going forward, the System Safety and Security team will read through the MOU to ensure they understand the requirements of the MOU. There are regularly scheduled "Right of Way Task Force Meetings" which Metro participates. SCRRA management will work with Metro to see if these meetings will be sufficient to cover the recommendation in the MOU. This will reduce the number of meetings necessary and fulfill the need for the Row Security review.

**Finding #2018-002: Rehabilitation/Renovation Quarterly Review Meeting**

**Criteria**

Article 2(c) of the MOU No. P0SCRRA28 states that, "SCRRA and LACMTA staff shall conduct a rehabilitation/renovation review meeting each quarter. At each quarterly meeting, SCRRA shall provide LACMTA with an updated ATTACHMENT A and quarterly expenditure and reconciliation report of the FY 2017-2018 rehabilitation/renovation program indicating the status of each project, schedule update, anticipated cash flow drawdowns, expenditures to budget and the amount invoiced to LACMTA to date."

**Condition**

The 3<sup>rd</sup> and 4<sup>th</sup> quarter meetings were jointly held on November 8, 2018. In addition, the information provided in the meetings were not current, not in compliance with the MOU, and minutes of the meetings were not maintained.

**Cause**

A joint meeting was held for the 3<sup>rd</sup> and 4<sup>th</sup> quarters due to conflicts in the schedules of the required participants/attendees. The information packet provided to LACMTA is used for discussion and is utilized as the meeting agenda.

**Effect**

SCRRA is not in compliance with the requirements of the MOU No. P0SCRRA28. Due to the lack of minutes of meetings, there is no record of the discussion and no assurance regarding official actions taken that may have had compliance or financial impact.

**Recommendation**

We recommend that SCRRA establish regular meeting dates on or before the beginning of the fiscal year to ensure compliance with the requirements of the MOU. Also, we recommend that information presented is timely and current to enable management to monitor status and provide relevant oversight of projects.

We also strongly recommend that, in the future, minutes be promptly prepared and retained for all meetings.

**Finding #2018-002: Rehabilitation/Renovation Quarterly Review Meeting (continued)**

**Management's Response**

SCRRA management intends to hold four quarterly meetings for rehabilitation and renovation. Prescheduling meetings prior to the start of the fiscal year is problematic since the completion of the cash flow is the cause of the late quarterly meetings. Cash flow reporting was an issue discussed with Metro at the FY19 Q1 meeting held in January. It is nearly impossible to create a cash flow forecasts for each of our active projects at the end of each quarter and provide the information Metro is requesting within 30 days of the end of the quarter. Metro and SCRRA staff agreed that the reporting would be due 60 days after the end of each quarter. The 60-day deadline was recently reached, and we are awaiting to hear from Metro for their availability to schedule the quarterly meeting. SCRRA would like to note that monthly status reports for all projects related to Metro are posted to the TAC Portal by the third week of each month. The monthly reports contain cost, schedule, funding, current accomplishments and planned activities for each individual project. SCRRA agrees that minutes will be taken at each quarterly meeting.

**Finding #2018-003: Accounting Discipline**

**Criteria**

Article 9 of the MOU No. P0SCRRA28 states that, "SCRRA is to provide a detailed schedule of all funds including the deferred revenue account. The detailed schedule of all funds included in the deferred revenue account shall include a beginning balance by fund type, activities during the fiscal year by project and fund type (e.g., Proposition C, Measure R, Measure M, PTMISEA, etc.) and an ending balance for each fund type. SCRRA shall obtain written approval from LACMTA prior to allocating and expending deferred revenue funds."

**Condition**

SCRRA was unable to provide the deferred revenue account schedule that provides fund type, activities during the fiscal year by project and fund type (e.g., Proposition C, Measure R, Measure M, PTMISEA, etc.) and an ending balance for each fund type as required under the MOU.

SCRRA hired a third party to perform a reconciliation of the deferred revenue account balance as shown in the CAFR and the general ledger. However, SCRRA is still in the process of performing a detailed analysis to provide details of the unearned revenue account balance per open MOUs.

**Cause**

There is lack of institutional history and monitoring mechanism for account balances. Because of staff turnover in prior years, current accounting staff does not have the information necessary to prepare the detailed schedule of unearned revenue. Staff will have to review prior year accounting records in order to obtain the information and prepare the schedule in compliance with the requirements of the LACMTA.

**Effect**

Certain audit procedures required on the balances of unearned revenue were not adequately performed.

**Recommendation**

We recommend that appropriate schedules of deferred revenue account be maintained in accordance with the LACMTA requirements. The schedule of unearned revenue should reflect the nature and source of the unearned revenue account balance (i.e. MOU numbers, type of subsidy or grant, grant year, purpose, restriction as to use, etc.).

**Management's Response**

SCRRA's external auditors (Moss Adams) completed a reconciliation of all deferred revenue accounts for 2002 through 2016. SCRRA is reviewing the work done by our auditors and adding some additional information as requested by Metro. SCRRA is currently adding MOU numbers, type of subsidy/grant, and grant year. SCRRA will be incorporating this information into the deferred reconciliation for 2017 and future years. Going forward SCRRA will continue to maintain the schedule of unearned revenue by the nature and source which will include unearned revenue reconciled by MOU, type of subsidy, and purpose.

**EXIT CONFERENCE**

An exit conference was held on March 8, 2019 with SCRRA's representative. Those in attendance were:

Vasquez & Company LLP representatives:

Cristy Canieda – Partner  
Marialyn Salvador – Audit Senior Manager  
Arvee Flores – Audit Staff

SCRRA representatives:

Alex Barber – Accounting Manager  
David Rogers – Senior Auditor, Internal Audit

Matters discussed:

Results of our examination disclosed instances of noncompliance with the Guidelines.

A copy of this report was forwarded to the following SCRRA representatives for comments prior to the issuance of the final report.

Alex Barber – Accounting Manager  
Elisabeth Lazuardi – Senior Manager, Internal Audit  
Andrew Hong – Senior Auditor, Internal Audit  
Michael Naoum III – Senior Manager, Finance





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