



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS
APPLICABLE TO MEASURE R ORDINANCE
AND MEASURE R LOCAL RETURN GUIDELINES**

**TO THE LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MEASURE R ORDINANCE AND
MEASURE R LOCAL RETURN GUIDELINES**

**To: Board of Directors of the Los Angeles County Metropolitan Transportation Authority
and Measure R Oversight Committee**

Report on Compliance

We have audited the compliance of the County of Los Angeles (County) and the thirty-eight (38) Cities identified in Schedule 1, with the types of compliance requirements described in the Measure R Ordinance enacted through a Los Angeles County voter-approved law in November 2008; Measure R Local Return Guidelines, issued by the Los Angeles County Metropolitan Transportation Authority (LACMTA), approved by its Board of Directors on October 22, 2009 (collectively, the Guidelines); and the respective Assurances and Understandings Regarding Receipt and Use of Measure R Local Return Funds, executed by LACMTA and the respective Cities and the County for the year ended June 30, 2016 (collectively, the Requirements). Compliance with the above noted Guidelines and Requirements by the County and the Cities are identified in the accompanying Summary of Compliance Findings, Schedule 1 and Schedule 2.

Management's Responsibility

Compliance with the Guidelines and Requirements is the responsibility of the respective management of the County and the Cities.

Auditors' Responsibility

Our responsibility is to express opinions on the County's and the Cities' compliance with the Guidelines and Requirements referred to above based on our audits. We conducted our audits of compliance 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether noncompliance with the types of requirements referred to above that could have a direct and material effect on the Measure R Local Return program occurred. An audit includes examining, on a test basis, evidence about the County and each City's compliance with the Guidelines and Requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audits provide a reasonable basis for our opinions on compliance. However, our audits do not provide a legal determination of the County and each City's compliance with the Guidelines and Requirements.



Opinion

In our opinion, except for the City of Compton, as described in Schedule 2 as Finding #2016-005, the Cities and the County complied, in all material respects, with the Guidelines and Requirements referred to above that could have a direct and material effect on the Measure R Local Return program for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Guidelines and Requirements and which are described in the accompanying Summary of Measure R Audit Results (Schedule 1) and Schedule of Findings and Questioned Costs (Schedule 2) as Findings #2016-001 through #2016-018. Our opinion is not modified with respect to these matters.

Responses by the Cities to the noncompliance findings identified in our audits are described in the accompanying Schedule 2 - Schedule of Findings and Questioned Costs. The Cities' 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

The management of the County and each City is responsible for establishing and maintaining effective internal control over compliance with the Guidelines and Requirements referred to above. In planning and performing our audits of compliance, we considered the County and each City's internal control over compliance with the Guidelines and Requirements that could have a direct and material effect on the Measure R Local Return program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Guidelines and Requirements, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County and each City's internal control over compliance.

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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and a significant deficiency.

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. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs (Schedule 2) as Findings #2016-001, #2016-002, #2016-005, #2016-009, #2016-010, #2016-013, #2016-015, #2016-016 and #2016-017, that we consider to be material weaknesses.



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. We identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as Finding #2016-004, that we consider to be a significant deficiency.

The responses by the Cities to the internal control over compliance findings identified in our audits are described in the accompanying Schedule of Findings and Questioned Costs (Schedule 2). The responses by the Cities 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 on internal control over compliance and the results of that testing based on the requirements of the Guidelines and Requirements. Accordingly, this report is not suitable for any other purpose.

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

Los Angeles, California
December 29, 2016

**Los Angeles County Metropolitan Transportation Authority
Summary of Compliance Findings
Fiscal Year Ended June 30, 2016**

The audits of the 38 cities and the County of Los Angeles identified in Schedule 1 have resulted in 18 findings. The table below shows a summary of the findings:

Finding	# of Findings	Responsible Cities/ Finding No. Reference	Questioned Costs	Resolved During the Audit
No adequate evidence that funds were expended for transportation purposes.	4	Compton (#2016-005) La Puente (#2016-009) Montebello (#2016-013) South El Monte (#2016-016)	\$ 1,129,557 30,950 49,280 4,015	\$ - 30,950 49,280 -
Funds were expended without LACMTA's approval.	5	Bell Gardens (#2016-001) La Puente (#2016-010) Lynwood (#2016-011) Rosemead (#2016-014) South El Monte (#2016-017)	140,694 5,836 1,079 5,443 4,960	140,694 5,836 - 5,443 4,960
Expenditure Plan (Form One) was not submitted on time.	2	Compton (#2016-006) Irwindale (#2016-008)	None None	- -
Expenditure Report (Form Two) was not submitted on time.	3	Compton (#2016-007) Lynwood (#2016-012) South El Monte (#2016-018)	None None None	- - -
Administrative expenses exceeded the 20% cap.	3	Bell Gardens (#2016-002) Carson (#2016-004) Rosemead (#2016-015)	12,146 4,594 20,830	12,146 4,594 20,830
Recreational Transit form was not submitted on time.	1	Calabasas (#2016-003)	None	-
Total Findings and Questioned Costs	18		\$ 1,409,384	\$ 274,733

Details of the findings are in Schedule 2.

**Los Angeles County Metropolitan Transportation Authority
Summary of Measure R Audit Results
Fiscal Year Ended June 30, 2016**

Compliance Area Tested	Agoura Hills	Azusa	Baldwin Park
Funds were expended for transportation purposes.	Compliant	Compliant	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	Compliant	Compliant	Compliant
Signed Assurances and Understandings on file.	Compliant	Compliant	Compliant
Separate Measure R Local Return Account was established.	Compliant	Compliant	Compliant
Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	Compliant	Compliant	Compliant
Funds were expended with LACMTA's approval.	Compliant	Compliant	Compliant
Expenditure Plan (Form One) was submitted on time.	Compliant	Compliant	Compliant
Expenditure Report (Form Two) was submitted on time.	Compliant	Compliant	Compliant
Timely use of funds.	Compliant	Compliant	Compliant
Administrative expenses are within the 20% cap.	Compliant	Compliant	Compliant
Fund exchanges were approved by LACMTA.	Not Applicable	Not Applicable	Not Applicable
A separate account was established for Capital reserve funds and Capital reserve was approved by LACMTA.	Not Applicable	Compliant	Not Applicable
Recreational transit form was submitted on time.	Not Applicable	Not Applicable	Not Applicable

**Los Angeles County Metropolitan Transportation Authority
Summary of Measure R Audit Results
Fiscal Year Ended June 30, 2016
(Continued)**

Compliance Area Tested	Bell	Bell Gardens	Beverly Hills
Funds were expended for transportation purposes.	Compliant	Compliant	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	Compliant	Compliant	Compliant
Signed Assurances and Understandings on file.	Compliant	Compliant	Compliant
Separate Measure R Local Return Account was established.	Compliant	Compliant	Compliant
Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	Compliant	Compliant	Compliant
Funds were expended with LACMTA's approval.	Compliant	See Finding #2016-001	Compliant
Expenditure Plan (Form One) was submitted on time.	Compliant	Compliant	Compliant
Expenditure Report (Form Two) was submitted on time.	Compliant	Compliant	Compliant
Timely use of funds.	Compliant	Compliant	Compliant
Administrative expenses are within the 20% cap.	Compliant	See Finding #2016-002	Compliant
Fund exchanges were approved by LACMTA.	Not Applicable	Not Applicable	Not Applicable
A separate account was established for Capital reserve funds and Capital reserve was approved by LACMTA.	Not Applicable	Not Applicable	Not Applicable
Recreational transit form was submitted on time.	Not Applicable	Compliant	Not Applicable

Los Angeles County Metropolitan Transportation Authority
Summary of Measure R Audit Results
Fiscal Year Ended June 30, 2016
(Continued)

Compliance Area Tested	Calabasas	Carson	Commerce
Funds were expended for transportation purposes.	Compliant	Compliant	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	Compliant	Compliant	Compliant
Signed Assurances and Understandings on file.	Compliant	Compliant	Compliant
Separate Measure R Local Return Account was established.	Compliant	Compliant	Compliant
Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	Compliant	Compliant	Compliant
Funds were expended with LACMTA's approval.	Compliant	Compliant	Compliant
Expenditure Plan (Form One) was submitted on time.	Compliant	Compliant	Compliant
Expenditure Report (Form Two) was submitted on time.	Compliant	Compliant	Compliant
Timely use of funds.	Compliant	Compliant	Compliant
Administrative expenses are within the 20% cap.	Compliant	See Finding #2016-004	Not Applicable
Fund exchanges were approved by LACMTA.	Not Applicable	Not Applicable	Not Applicable
A separate account was established for Capital reserve funds and Capital reserve was approved by LACMTA.	Not Applicable	Not Applicable	Not Applicable
Recreational transit form was submitted on time.	See Finding #2016-003	Not Applicable	Compliant

Los Angeles County Metropolitan Transportation Authority
Summary of Measure R Audit Results
Fiscal Year Ended June 30, 2016
(Continued)

Compliance Area Tested	Compton	Cudahy	Culver City
Funds were expended for transportation purposes.	See Finding #2016-005	Compliant	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	Compliant	Compliant	Compliant
Signed Assurances and Understandings on file.	Compliant	Compliant	Compliant
Separate Measure R Local Return Account was established.	Compliant	Compliant	Compliant
Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	Compliant	Compliant	Compliant
Funds were expended with LACMTA's approval.	Compliant	Compliant	Compliant
Expenditure Plan (Form One) was submitted on time.	See Finding #2016-006	Compliant	Compliant
Expenditure Report (Form Two) was submitted on time.	See Finding #2016-007	Compliant	Compliant
Timely use of funds.	Compliant	Compliant	Compliant
Administrative expenses are within the 20% cap.	Compliant	Compliant	Compliant
Fund exchanges were approved by LACMTA.	Not Applicable	Not Applicable	Not Applicable
A separate account was established for Capital reserve funds and Capital reserve was approved by LACMTA.	Not Applicable	Not Applicable	Not Applicable
Recreational transit form was submitted on time.	Not Applicable	Not Applicable	Not Applicable

**Los Angeles County Metropolitan Transportation Authority
Summary of Measure R Audit Results
Fiscal Year Ended June 30, 2016
(Continued)**

Compliance Area Tested	El Monte	Gardena	Hawthorne
Funds were expended for transportation purposes.	Compliant	Compliant	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	Compliant	Compliant	Compliant
Signed Assurances and Understandings on file.	Compliant	Compliant	Compliant
Separate Measure R Local Return Account was established.	Compliant	Compliant	Compliant
Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	Compliant	Compliant	Compliant
Funds were expended with LACMTA's approval.	Compliant	Compliant	Compliant
Expenditure Plan (Form One) was submitted on time.	Compliant	Compliant	Compliant
Expenditure Report (Form Two) was submitted on time.	Compliant	Compliant	Compliant
Timely use of funds.	Compliant	Compliant	Compliant
Administrative expenses are within the 20% cap.	Compliant	Compliant	Compliant
Fund exchanges were approved by LACMTA.	Not Applicable	Not Applicable	Not Applicable
A separate account was established for Capital reserve funds and Capital reserve was approved by LACMTA.	Compliant	Not Applicable	Not Applicable
Recreational transit form was submitted on time.	Not Applicable	Not Applicable	Not Applicable

Los Angeles County Metropolitan Transportation Authority
Summary of Measure R Audit Results
Fiscal Year Ended June 30, 2016
(Continued)

Compliance Area Tested	Hidden Hills	Huntington Park	Industry
Funds were expended for transportation purposes.	Compliant	Compliant	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	Compliant	Compliant	Compliant
Signed Assurances and Understandings on file.	Compliant	Compliant	Compliant
Separate Measure R Local Return Account was established.	Compliant	Compliant	Compliant
Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	Compliant	Compliant	Compliant
Funds were expended with LACMTA's approval.	Compliant	Compliant	Compliant
Expenditure Plan (Form One) was submitted on time.	Compliant	Compliant	Compliant
Expenditure Report (Form Two) was submitted on time.	Compliant	Compliant	Compliant
Timely use of funds.	Compliant	Compliant	Compliant
Administrative expenses are within the 20% cap.	Compliant	Compliant	Compliant
Fund exchanges were approved by LACMTA.	Not Applicable	Not Applicable	Not Applicable
A separate account was established for Capital reserve funds and Capital reserve was approved by LACMTA.	Not Applicable	Not Applicable	Not Applicable
Recreational transit form was submitted on time.	Not Applicable	Not Applicable	Not Applicable

**Los Angeles County Metropolitan Transportation Authority
Summary of Measure R Audit Results
Fiscal Year Ended June 30, 2016
(Continued)**

Compliance Area Tested	Inglewood	Irwindale	La Puente
Funds were expended for transportation purposes.	Compliant	Not Applicable	See Finding #2016-009
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	Compliant	Not Applicable	Compliant
Signed Assurances and Understandings on file.	Compliant	Compliant	Compliant
Separate Measure R Local Return Account was established.	Compliant	Compliant	Compliant
Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	Compliant	Compliant	Compliant
Funds were expended with LACMTA's approval.	Compliant	Not Applicable	See Finding #2016-010
Expenditure Plan (Form One) was submitted on time.	Compliant	See Finding #2016-008	Compliant
Expenditure Report (Form Two) was submitted on time.	Compliant	Compliant	Compliant
Timely use of funds.	Compliant	Compliant	Compliant
Administrative expenses are within the 20% cap.	Compliant	Not Applicable	Compliant
Fund exchanges were approved by LACMTA.	Not Applicable	Not Applicable	Not applicable
A separate account was established for Capital reserve funds and Capital reserve was approved by LACMTA.	Not Applicable	Not Applicable	Not applicable
Recreational transit form was submitted on time.	Not Applicable	Not Applicable	Not applicable

Los Angeles County Metropolitan Transportation Authority
Summary of Measure R Audit Results
Fiscal Year Ended June 30, 2016
(Continued)

Compliance Area Tested	Lawndale	Los Angeles County	Lynwood
Funds were expended for transportation purposes.	Compliant	Compliant	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	Compliant	Compliant	Compliant
Signed Assurances and Understandings on file.	Compliant	Compliant	Compliant
Separate Measure R Local Return Account was established.	Compliant	Compliant	Compliant
Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	Compliant	Compliant	Compliant
Funds were expended with LACMTA's approval.	Compliant	Compliant	See Finding #2016-011
Expenditure Plan (Form One) was submitted on time.	Compliant	Compliant	Compliant
Expenditure Report (Form Two) was submitted on time.	Compliant	Compliant	See Finding #2016-012
Timely use of funds.	Compliant	Compliant	Compliant
Administrative expenses are within the 20% cap.	Compliant	Not Applicable	Compliant
Fund exchanges were approved by LACMTA.	Not Applicable	Not Applicable	Not Applicable
A separate account was established for Capital reserve funds and Capital reserve was approved by LACMTA.	Not Applicable	Not Applicable	Not Applicable
Recreational transit form was submitted on time.	Not Applicable	Not Applicable	Not Applicable

**Los Angeles County Metropolitan Transportation Authority
Summary of Measure R Audit Results
Fiscal Year Ended June 30, 2016
(Continued)**

Compliance Area Tested	Malibu	Maywood	Montebello
Funds were expended for transportation purposes.	Compliant	Compliant	See Finding #2016-013
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	Compliant	Compliant	Compliant
Signed Assurances and Understandings on file.	Compliant	Compliant	Compliant
Separate Measure R Local Return Account was established.	Compliant	Compliant	Compliant
Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	Compliant	Compliant	Compliant
Funds were expended with LACMTA's approval.	Compliant	Compliant	Compliant
Expenditure Plan (Form One) was submitted on time.	Compliant	Compliant	Compliant
Expenditure Report (Form Two) was submitted on time.	Compliant	Compliant	Compliant
Timely use of funds.	Compliant	Compliant	Compliant
Administrative expenses are within the 20% cap.	Compliant	Compliant	Compliant
Fund exchanges were approved by LACMTA.	Not Applicable	Not Applicable	Not Applicable
A separate account was established for Capital reserve funds and Capital reserve was approved by LACMTA.	Not Applicable	Not Applicable	Not Applicable
Recreational transit form was submitted on time.	Not Applicable	Not Applicable	Not Applicable

**Los Angeles County Metropolitan Transportation Authority
Summary of Measure R Audit Results
Fiscal Year Ended June 30, 2016
(Continued)**

Compliance Area Tested	Monterey Park	Pico Rivera	Pomona
Funds were expended for transportation purposes.	Compliant	Compliant	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	Compliant	Compliant	Compliant
Signed Assurances and Understandings on file.	Compliant	Compliant	Compliant
Separate Measure R Local Return Account was established.	Compliant	Compliant	Compliant
Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	Compliant	Compliant	Compliant
Funds were expended with LACMTA's approval.	Compliant	Compliant	Compliant
Expenditure Plan (Form One) was submitted on time.	Compliant	Compliant	Compliant
Expenditure Report (Form Two) was submitted on time.	Compliant	Compliant	Compliant
Timely use of funds.	Compliant	Compliant	Compliant
Administrative expenses are within the 20% cap.	Compliant	Compliant	Compliant
Fund exchanges were approved by LACMTA.	Not Applicable	Not Applicable	Not Applicable
A separate account was established for Capital reserve funds and Capital reserve was approved by LACMTA.	Not Applicable	Not Applicable	Compliant
Recreational transit form was submitted on time.	Not Applicable	Not Applicable	Not Applicable

Los Angeles County Metropolitan Transportation Authority
Summary of Measure R Audit Results
Fiscal Year Ended June 30, 2016
(Continued)

Compliance Area Tested	Rosemead	San Fernando	Santa Monica
Funds were expended for transportation purposes.	Compliant	Compliant	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	Compliant	Compliant	Compliant
Signed Assurances and Understandings on file.	Compliant	Compliant	Compliant
Separate Measure R Local Return Account was established.	Compliant	Compliant	Compliant
Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	Compliant	Compliant	Compliant
Funds were expended with LACMTA's approval.	See Finding #2016-014	Compliant	Compliant
Expenditure Plan (Form One) was submitted on time.	Compliant	Compliant	Compliant
Expenditure Report (Form Two) was submitted on time.	Compliant	Compliant	Compliant
Timely use of funds.	Compliant	Compliant	Compliant
Administrative expenses are within the 20% cap.	See Finding #2016-015	Compliant	Compliant
Fund exchanges were approved by LACMTA.	Not Applicable	Not Applicable	Not Applicable
A separate account was established for Capital reserve funds and Capital reserve was approved by LACMTA.	Not Applicable	Not Applicable	Not Applicable
Recreational transit form was submitted on time.	Not Applicable	Not Applicable	Not Applicable

Los Angeles County Metropolitan Transportation Authority
Summary of Measure R Audit Results
Fiscal Year Ended June 30, 2016
(Continued)

Compliance Area Tested	Santa Fe Springs	South El Monte	South Gate
Funds were expended for transportation purposes.	Compliant	See Finding #2016-016	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	Compliant	Compliant	Compliant
Signed Assurances and Understandings on file.	Compliant	Compliant	Compliant
Separate Measure R Local Return Account was established.	Compliant	Compliant	Compliant
Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	Compliant	Compliant	Compliant
Funds were expended with LACMTA's approval.	Compliant	See Finding #2016-017	Compliant
Expenditure Plan (Form One) was submitted on time.	Compliant	Compliant	Compliant
Expenditure Report (Form Two) was submitted on time.	Compliant	See Finding #2016-018	Compliant
Timely use of funds.	Compliant	Compliant	Compliant
Administrative expenses are within the 20% cap.	Compliant	Compliant	Compliant
Fund exchanges were approved by LACMTA.	Not Applicable	Not Applicable	Not Applicable
A separate account was established for Capital reserve funds and Capital reserve was approved by LACMTA.	Not Applicable	Not Applicable	Not Applicable
Recreational transit form was submitted on time.	Not Applicable	Not Applicable	Not Applicable

Los Angeles County Metropolitan Transportation Authority
Summary of Measure R Audit Results
Fiscal Year Ended June 30, 2016
(Continued)

Compliance Area Tested	Walnut	West Hollywood	Westlake Village
Funds were expended for transportation purposes.	Compliant	Compliant	Compliant
Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	Compliant	Compliant	Compliant
Signed Assurances and Understandings on file.	Compliant	Compliant	Compliant
Separate Measure R Local Return Account was established.	Compliant	Compliant	Compliant
Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	Compliant	Compliant	Compliant
Funds were expended with LACMTA's approval.	Compliant	Compliant	Compliant
Expenditure Plan (Form One) was submitted on time.	Compliant	Compliant	Compliant
Expenditure Report (Form Two) was submitted on time.	Compliant	Compliant	Compliant
Timely use of funds.	Compliant	Compliant	Compliant
Administrative expenses are within the 20% cap.	Compliant	Compliant	Not Applicable
Fund exchanges were approved by LACMTA.	Not Applicable	Not Applicable	Not Applicable
A separate account was established for Capital reserve funds and Capital reserve was approved by LACMTA.	Not Applicable	Not Applicable	Not Applicable
Recreational transit form was submitted on time.	Not Applicable	Not Applicable	Not Applicable

**Los Angeles County Metropolitan Transportation Authority
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2016**

Finding #2016-001	City of Bell Gardens
Compliance Reference	<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>
Condition	<p>The City claimed expenditures for MRLRF project code 8.10, Fund Administration, for \$140,694 with no prior approval from LACMTA.</p> <p>The City submitted a revised Expenditure Plan (Form One) to the LACMTA Program Manager and obtained a retroactive approval of the said project on December 22, 2016.</p>
Cause	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.
Effect	The City claimed expenditures totaling \$140,694 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.
Recommendation	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.
Management's Response	The City is in the process of submitting a revised Expenditure Plan (Form One) to LACMTA for retroactive approval. Additionally, the City is going to reevaluate the processes that are in place to ensure forms are submitted to LACMTA by August 1st.
Finding Corrected During the Audit	LACMTA Program Manager granted retroactive approval of the said project on December 22, 2016. No additional follow up is required.

**Los Angeles County Metropolitan Transportation Authority
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2016**

Finding #2016-002	City of Bell Gardens
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 includes 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 \$12,146.
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 reimburse the questioned cost of \$12,146 to the MRLRF account. In addition, the City should 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.
Management's Response	The City has reimbursed MRLRF \$12,146 for the excess amount of Direct Administration. A journal entry has been booked to transfer the funds from the City's General Fund, and a copy of the recorded journal entry has been provided to the auditors.
Finding Corrected During the Audit	The City has reimbursed the City's MRLRF account the amount of \$12,146 in FY 2016/17. No follow up is required.

**Los Angeles County Metropolitan Transportation Authority
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2016**

Finding #2016-003	City of Calabasas
Compliance Reference	Section B(II)(3) of the Measure R Local Return Program Guidelines also states that, "Jurisdictions that use their Measure R LR funds for recreational transit services must fill out, sign and submit this form no later than October 15 after the fiscal year in which the services were rendered".
Condition	The Recreational Transit report was submitted on December 8, 2016, which is beyond the due date of October 15, 2016.
Cause	The City Staff inadvertently overlooked this paperwork that needed to be filed by the deadline of October 15, 2016.
Effect	The City was not in compliance with the reporting requirements of the Local Return Guidelines.
Recommendation	We recommend for the City to establish procedures and controls to ensure that the Annual Recreational Transit Report is submitted by October 15 as required by the Guidelines.
Management's Response	Going forward, it is in the City Staff calendar to file this document along with the Expenditure Report (Form Two) by the deadline of October 15.
Finding Corrected During the Audit	The City subsequently submitted the form. No follow up is required.

**Los Angeles County Metropolitan Transportation Authority
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2016
(Continued)**

Finding #2016-004	City of Carson
Compliance Reference	Section II(A)(15) of Measure R Local Return Program Guideline states that, "The administrative expenditures for any year shall not exceed 20 percent of the total LR annual expenditures, based on year-end expenditures, and will be subject to an audit finding if the figure exceeds 20%."
Condition	The City's administrative expenditures exceeded more than 20% of its total Measure R Local Return expenditures in the amount of \$4,594.
Cause	The City uses its best estimate of percentage of its project and administrative employees' salaries to determine the administrative payroll charges to MRLRF.
Effect	The City's MRLRF administrative expenditures exceeded 20 percent of its local return annual expenditure. The City did not comply with the Guidelines. Amount exceeded 20 percent cap resulted in questioned cost of \$4,594. The City is required to reimburse the MRLRF account for this amount.
Recommendation	We recommend that the City establish procedures and controls to ensure that administrative expenditures are within the 20 percent cap of the MRLRF's total annual expenditures. Also, the City should return the amount of \$4,594, the amount over the 20% cap, to the MRLRF account.
Management's Response	The City will establish a review process to periodically perform a comparison of actual hours to budgeted/charged amount to ensure that the administrative expenditures reported to MRLRF are within the 20% cap.
Finding Corrected During the Audit	The City has reimbursed the City's MRLRF account the amount of \$4,594 in FY 2016/17. No follow up is required.

**Los Angeles County Metropolitan Transportation Authority
 Schedule of Findings and Questioned Costs
 Fiscal Year Ended June 30, 2016
 (Continued)**

Finding #2016-005	City of Compton
Compliance Reference	<p>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 includes 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".</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.

Los Angeles County Metropolitan Transportation Authority
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2016
(Continued)

Finding #2016-005 (Continued)	City of Compton
Compliance Reference (Continued)	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).
Condition	<p>The City claimed salaries and benefits expenditures under project code 2.05, Traffic Signal, amounting to \$949,974 and project code 8.10, Fund Administration, amounting to \$179,583.</p> <p>The City was not able to provide the timesheets, payroll registers, labor distribution reports and other related documents to support the charges. We were not able to verify the reasonableness and allowability of these expenditures under the Local Return Guidelines.</p>
Cause	There was a breakdown in internal controls over compliance to ensure that all necessary documentation was retained supporting the costs charged to Measure R.
Effect	The salaries and benefits claimed under Measure R may include unallowable payroll costs and therefore, we question the total amount of \$1,129,557.
Recommendation	We recommend that the City reimburse its MRLRF account the amount of \$1,129,557. 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.
Management's Response	As of the date of this report, the City management has not provided a response to this finding.

**Los Angeles County Metropolitan Transportation Authority
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2016
(Continued)**

Finding #2016-006	City of Compton
Compliance Reference	Section B (II) (I) of the Measure R Local Return Program Guidelines states that, "To maintain eligibility and meet Measure R LR program compliance requirements, jurisdictions shall submit to LACMTA an Expenditure Plan (Form One) annually by August 1 st of each year".
Condition	The City submitted its Expenditure Plan (Form One) on November 23, 2016, which is beyond the due date set under the Guidelines.
Cause	The City lacks adequate procedures and controls to ensure that the Expenditure Plan (Form One) is submitted on time.
Effect	The City's Expenditure Plan (Form One) was not submitted timely. The City was not in compliance with the Local Return Guidelines.
Recommendation	We recommend for the City to establish procedures and controls to ensure that Expenditure Plan (Form One) is submitted by August 1 as required by the Guidelines.
Management's Response	As of the date of this report, the City management has not provided a response to this finding.
Finding Corrected During the Audit	The City subsequently submitted the form. No follow up is required.

**Los Angeles County Metropolitan Transportation Authority
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2016
(Continued)**

Finding #2016-007	City of Compton
Compliance Reference	Section B(II)(2) of the Measure R Local Return Program Guidelines states that "...Jurisdictions shall submit to LACMTA an Expenditure Report (Form Two), annually, by October 15 th (following the conclusion of the fiscal year)...."
Condition	The City submitted its Form Two on December 2, 2016, which is beyond the due date set under the Guidelines.
Cause	The City lacks adequate procedures and controls to ensure that the Expenditure Report (Form Two) is submitted on time.
Effect	Expenditure Report (Form Two) was not submitted timely as required by the Guidelines.
Recommendation	We recommend for the City to establish procedures and controls to ensure that Expenditure Report (Form Two) is submitted by October 15 as required by the Guidelines.
Management's Response	As of the date of this report, the City management has not provided a response to this finding.
Finding Corrected During the Audit	The City subsequently submitted the form. No follow up is required.

Los Angeles County Metropolitan Transportation Authority
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2016
(Continued)

Finding #2016-008	City of Irwindale
Compliance Reference	Section B (II) (I) of the Measure R Local Return Program Guidelines states that, "To maintain eligibility and meet Measure R LR program compliance requirements, jurisdictions shall submit to LACMTA an Expenditure Plan (Form One) annually by August 1 st of each year".
Condition	The City submitted its Expenditure Plan (Form One) on August 5, 2015, which is beyond the due date set under the Guidelines.
Cause	The condition was due to oversight by City Staff.
Effect	The City's Expenditure Plan (Form One) was not submitted timely. The City was not in compliance with the Local Return Guidelines.
Recommendation	We recommend for the City to establish procedures and controls to ensure that Form One is submitted by August 1 as required by the Guidelines.
Management's Response	The City of Irwindale recognizes the importance of submitting all MTA Forms timely, and has always met its deadlines in the past. Unfortunately, the City submitted this Form 4 days late this year. We believe this oversight was an isolated incident caused by extenuating circumstances, as the City was undergoing a major State Audit at the time. City Staff will ensure all deadlines are met in the future.
Finding Corrected During the Audit	The City subsequently submitted the form. No follow up is required.

**Los Angeles County Metropolitan Transportation Authority
 Schedule of Findings and Questioned Costs
 Fiscal Year Ended June 30, 2016
 (Continued)**

Finding #2016-009	City of La Puente
Compliance Reference	<p>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 includes 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".</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).

Los Angeles County Metropolitan Transportation Authority
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2016
(Continued)

Finding #2016-009 (Continued)	City of La Puente
Condition	The claimed expenditures under project codes 08-001 to 08-006, Administration, amounting to \$30,950 had no supporting documentation as to the nature of the expenditures. We were informed that the amount was derived from a calculation based on 20 percent of the total local return annual expenditures. We were not able to verify the reasonableness and allowability of the expenditures under the Guidelines.
Cause	The City was not aware that its practice of calculating 20 percent of the total annual expenditure and charging this amount to administrative expenditures without adequate support was a noncompliance with the requirements of the Guidelines.
Effect	The unsupported administrative expenditures claimed under the MRLRF are disallowed under the Measure R Local Return Program Guidelines.
Recommendation	We recommend that the City reimburse its MRLRF account the amount of \$30,950. In addition, we recommend that the City establish controls to ensure that the costs charged to the Local Return funds are adequately supported by contracts, invoices, cancelled checks or similar documentation and that it revise its current labor costs reporting procedures to ensure that labor costs charged to Local Return funds are adequately supported by timesheets, payroll registers, personnel action forms with job descriptions, or similar documentation so that Local Return expenditures are in compliance with the Guidelines.

Los Angeles County Metropolitan Transportation Authority
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2016
(Continued)

Finding #2016-009 (Continued)	City of La Puente
Management's Response	<p>The Measure R Local Return Guidelines (Guidelines) issued by the Los Angeles County Metropolitan Transportation Authority (LACMTA) do not stipulate that actual administrative hours are to be documented and staff is confident the City is in compliance with existing Guidelines. Current staff was unaware of the letter that was sent out by MTA in April 2014 <i>recommending</i> specific documentation for administrative costs. The letter referenced above was provided to the City at the time of the FY 15-16 audit. Furthermore, no mention of additional required documentation for administrative costs was made during the prior (FY 14-15) LACMTA audit. City staff is now aware of the recommendation and will ensure adequate evidence to support administrative charges in the future (beginning in fiscal year 2016-2017).</p> <p>Beginning in fiscal year 2016-2017, a system will be developed and maintained that will ensure that administrative costs charged to Local Return funds are adequately supported by time sheets, payroll registers or other documentation so that it is in compliance with the LACMTA's recommendation for documenting administrative costs.</p>
Auditors' Rejoinder	<p>Aside from the memo issued on April 29, 2014, LACMTA and the Auditors conducted an annual audit kickoff workshop attended by representatives from the Jurisdictions. During these workshops, Auditors and LACMTA emphasizes the importance of maintaining proper documentation that would support allowability of expenditures charged to local return funds including supports for payroll and administration charges.</p>
Finding Corrected During the Audit	<p>The City has reimbursed the City's MRLRF account the amount of \$30,950 in FY 2016/17. No follow up is required.</p>

Los Angeles County Metropolitan Transportation Authority
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2016
(Continued)

Finding #2016-010	City of La Puente
Compliance Reference	Measure R Local Return Program Guidelines Section B(VII)(A) states that, "The Measure R LR Audits shall include, but not limited to, verification of adherence to the following financial and compliance provisions of this guidelines: Verification that funds were expended with Metro's approval."
Condition	The City claimed expenditures for the following projects without prior approval from LACMTA: a. Project code 01-001, Santo Oro Local Street Improvements, amounting to \$1,954; b. Project code 01-002, Rule 20A Undergrounding, amounting to \$115; c. Project code 08-001, Administration for 01-001, amounting to \$446; d. Project code 08-002, Administration for 01-002, amounting to \$26; e. Project code 08-003, Administration for 02-001, amounting to \$613; and f. Project code 02-001, Traffic Signal Improvements on Amar Road, Various Locations, amounting to \$2,682.
Cause	Invoices were not submitted in a timely fashion by vendors (Project 01-001); Staff began preliminary work on projects (remaining projects) that were being budgeted for in the following fiscal year. LACMTA approval for the projects had yet to be received.
Effect	The City claimed expenditures totaling \$5,836 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.
Recommendation	We recommend for the City to submit a revised Expenditure Plan (Form One) to obtain approval from LACMTA. In addition, the City should establish procedures and controls to ensure that approval is obtained from LACMTA prior to implementing any Measure R-funded projects.
Management's Response	The City has subsequently submitted a revised Expenditure Plan (Form One) to LACMTA and has received approval on December 13, 2016 for the above-mentioned projects. Additionally, staff will work to ensure that proper approval is obtained from LACMTA prior to project expenditures and will encourage vendors to submit invoices in a timely fashion.

Los Angeles County Metropolitan Transportation Authority
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2016
(Continued)

Finding #2016-010 (Continued)	City of La Puente
Finding Corrected During the Audit	LACMTA Program Manager granted retroactive approval of the said project on December 13, 2016. No additional follow up is required.

Los Angeles County Metropolitan Transportation Authority
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2016
(Continued)

Finding #2016-011	City of Lynwood
Compliance Reference	<p>Section B(II)(1) of the Measure R Local Return Program Guidelines states that "...LACMTA will provide LR funds to a capital project or program sponsor who submits the required expenditure plan containing the following: 1. The estimated total cost for each project and/or program activity"</p> <p>To maintain legal eligibility and meet Measure R LR program compliance requirements, Jurisdictions shall submit to LACMTA an Expenditure Plan (Form One), annually, by August 1 of each year.</p>
Condition	<p>The City claimed expenditures for Project code 3.90, Pedestrian Improvements Around Various Schools, totaling \$1,079 with no prior approval from LACMTA.</p> <p>Based on our discussion with the Interim Finance Director, the expenditure was erroneously recorded under the MRLRF and the City intends to make the necessary adjustment in FY 2016/17.</p>
Cause	The City staff committed an error in recording this expenditure under MRLRF account.
Effect	The City claimed expenditures totaling \$1,079 without prior approval from LACMTA. The City is required to return the amount to the MRLRF.
Recommendation	We recommend for the City to reimburse its MRLRF account the amount of \$1,079. In addition, we recommend for the City to establish procedures and controls to ensure that only related transactions are recorded under the MRLRF account.
Management's Response	<p>For the Pedestrian Safety Improvement project, the funding source to be used was supposed to be an HSIP Grant rather than Measure R. Staff will work with Finance Department to make the reversal.</p> <p>The City will make the adjustment in FY 2016/17.</p>

**Los Angeles County Metropolitan Transportation Authority
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2016
(Continued)**

Finding #2016-012	City of Lynwood
Compliance Reference	Section B(II)(2) of the Measure R Local Return Program Guidelines states that "...Jurisdictions shall submit to LACMTA an Expenditure Report (Form Two), annually, by October 15 th (following the conclusion of the fiscal year)...."
Condition	The City submitted its Expenditure Report (Form Two) on November 13, 2015, which is beyond the due date set under the Guidelines.
Cause	The City lacks adequate procedures and controls to ensure that the Expenditure Report (Form Two) is submitted on time.
Effect	Expenditure Report (Form Two) was not submitted timely as required by the Guidelines.
Recommendation	We recommend for the City to establish procedures and controls to ensure that Expenditure Report (Form Two) is submitted by October 15 as required by the Guidelines.
Management's Response	There has been a significant turn-over in staffing. The City will designate a new staff member to monitor the timely submittal of the Expenditure Report (Form Two) of Measure R Local Return.
Finding Corrected During the Audit	The City subsequently submitted the form. No follow up is required.

**Los Angeles County Metropolitan Transportation Authority
 Schedule of Findings and Questioned Costs
 Fiscal Year Ended June 30, 2016
 (Continued)**

Finding #2016-013	City of Montebello
Compliance Reference	<p>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 includes 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.</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).

Los Angeles County Metropolitan Transportation Authority
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2016
(Continued)

Finding #2016-013 (Continued)	City of Montebello
Condition	The City claimed labor overhead costs of \$49,280 under the MRLRF project code 8.10, Administrative Costs, which was based on budget estimate derived from a time study conducted 5 years ago. Per discussion with management, with the increasing labor and administrative cost, this amount is significantly lower than the actual administration cost that should have been charged to the program.
Cause	The City has not yet updated its overhead allocation rates based on current year information.
Effect	The administrative costs charged to these funds are not supported with an updated cost allocation plan.
Recommendation	We recommend that the City reimburse its MRLRF account the amount of \$49,280. In addition, we recommend for the City perform a more recent time study analysis to assess a more realistic estimate of the overhead costs for this program and perform an analysis to true-up the amount claimed at year-end to ensure that the claimed expenditures approximates the actual cost incurred.
Management Response	City will repay and charge appropriate administrative overhead after the cost allocation model is updated.
Finding Corrected During the Audit	The City has reimbursed the City's MRLRF account the amount of \$49,280 in FY 2016/17. No follow up is required.

Los Angeles County Metropolitan Transportation Authority
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2016
(Continued)

Finding #2016-014	City of Rosemead
Compliance Reference	<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>
Condition	<p>The City claimed expenditures for MRLRF project code 1.05, Montebello Blvd/Towne Center Drive Resurface, for \$5,443 with no prior approval from LACMTA.</p> <p>Although this project was previously approved in FY 2014/15, the City is still required to carry over the budget in Expenditure Plan (Form One) and have it approved for FY 2015/16.</p>
Cause	This finding was due to the City's understanding that this Montebello project was complete; however, there was a final invoice to be paid.
Effect	Measure R funds of \$5,443 were expended towards project expenditures without prior approval by the LACMTA.
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 subsequently obtained LACMTA approval in December 2016. The City has established procedures and controls to ensure that approval is obtained prior to spending funds. These procedures include Finance staff will set up and maintain a calendar for Metro deadlines, and also, Measure R warrant requests and invoices will be reviewed to make sure these approvals are in place before issuing a payment.
Finding Corrected During the Audit	LACMTA Program Manager granted a retroactive approval of this project on December 20, 2016. No follow up is required.

Los Angeles County Metropolitan Transportation Authority
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2016
(Continued)

Finding #2016-015	City of Rosemead
Compliance Reference	Section II (A) (15) of Measure R Local Return Program Guideline states that, "The administrative expenditures for any year shall not exceed 20 percent of the total LR annual expenditures, based on year-end expenditures, and will be subject to an audit finding if the figure exceeds 20 percent
Condition	The City's Measure R actual administration expenditures exceeded more than 20 percent of its MRLRF total annual expenditures by \$20,830.
Cause	There appears to be lack of interim review of the City's compliance with the Local Return Guidelines' 20 percent cap on the administrative expenditures that can be claimed under the local return fund.
Effect	The City's administrative expenses exceeded over 20 percent of the total annual local return expenditures and therefore, do not comply with the Guidelines. The City is required to reimburse the questioned cost of \$20,830 to the MRLRF account.
Recommendation	We recommend for the City to reimburse the questioned cost of \$20,830 to the MRLRF account. In addition, the City should 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.
Management's Response	<p>The City needs to monitor the Measure R administrative expenditures on a monthly basis and at year end to determine if we have exceeded the 20% limit.</p> <p>The City did a Fiscal Year 2016/17 journal entry to transfer the excess administrative expenses of \$20,830 from the General Fund to the Measure R Fund. The Finance Director will work with Finance staff to establish procedures to ensure that the administrative expenditures claimed are limited to 20 percent of the fund's total annual expenditures in the future.</p>
Finding Corrected During the Audit	The City has reimbursed the City's MRLRF account the amount of \$20,830 in FY 2016/17. No follow up is required.

**Los Angeles County Metropolitan Transportation Authority
 Schedule of Findings and Questioned Costs
 Fiscal Year Ended June 30, 2016
 (Continued)**

Finding #2016-016	City of South El Monte
Compliance Reference	According to Measure R Guidelines, Section B (VII. Audit Section), "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	<p>During the fiscal year 2016, the City made payments to Arroyo Strategy Group under the MRLRF project code 4.90, SR-60 Coalition Work, totaling \$4,015.</p> <p>On June 2, 2016 the City of South El Monte ("City") provided a response to each finding in the Draft Report of Forensic Accountants, dated February 26, 2016 ("Draft Report"). The Draft Report was prepared to address issues identified by the City's independent auditor in a letter dated September 8, 2015 ("VLF Letter"). There are 14 findings in the Draft Report. In general, the findings relate to various contracts (i) between the City and OH Consulting Services, Inc. dba Arroyo Strategy Group ("Arroyo") and (ii) between the City and ECM Group, Inc. ("ECM"). The City has terminated its contract with Arroyo, effective June 30, 2016. With one exception, the City has terminated all contracts with ECM effective April 30, 2016.</p> <p>Below are the findings identified in the Draft Report prepared by the Forensic Accountants:</p> <p>Finding 1: <i>City management failed to subject Arroyo and ECM contracts to competition.</i></p> <p>Finding 2: <i>City management failed to require and inspect proper record keeping and document retention policies related to contractors' performance of contract.</i></p> <p>Finding 3: <i>City management failed to institute and enforce control procedures that would assure payments were not made in excess of contractual limits. City management failed to institute and enforce control procedures that would assure compliance with contractual hourly rates.</i></p> <p>Finding 4: <i>City management failed to maintain sufficient control over accounts payable and check disbursement procedures.</i></p> <p>Finding 5: <i>The City Manager executed three contracts (each in excess of \$25,000) and authorized payments of \$110,000 to Arroyo without City Council's approval.</i></p>

**Los Angeles County Metropolitan Transportation Authority
 Schedule of Findings and Questioned Costs
 Fiscal Year Ended June 30, 2016
 (Continued)**

Finding #2016-016 (Continued)	City of South El Monte
Condition (Continued)	<p>Finding 6: <i>With City Council's unanimous approval, the City Manager executed a separate contract with Arroyo, with a three-year term, which contains no maximum fee provision, and which fails to grant the City customary audit rights. Although present at the meeting where this contract was approved, the City Attorney did not sign this contract.</i></p> <p>Finding 7: <i>Arroyo failed to allow inspection of its records, although obligated to do so in accordance with six of the contracts effective during the report period. In response to our inspection request, Arroyo asserted that it does not maintain any physical office location. Consequently, we were unable to perform an inspection of Arroyo's records, and were unable to analyze important quantitative aspects of Arroyo's performance, such as the hours of labor provided, the dates 011 which labor was supplied, and details of tasks performed.</i></p> <p>Finding 8: <i>With reference to contracts executed or pending during the fiscal year ended 06/30/15, between the City and ECM: the City Manager executed one contract and authorized payments of \$29,376 to ECM without City Council's approval.</i></p> <p>Finding 9: <i>ECM submitted false time and billing reports to the City, and received public funds on the basis of such false information.</i></p> <p>Finding 10: <i>No contract or supporting documents exist related to a number of special projects assigned to Arroyo, and for which Arroyo was paid.</i></p> <p>Finding 11: <i>Although specifically prohibited from reimbursement of expenses without prior written authorization, Arroyo tendered reimbursement claims, and was paid reimbursements of \$3,283 including expenses related to a trip to Sacramento, cables and electronics, and a room fee for the SR-60 Coalition meeting, without prior written authorization.</i></p> <p>Finding 12: <i>Timesheets submitted by Arroyo are unsubstantiated.</i></p> <p>Finding 13: <i>The ECM contracts were altered substantially without approval of the City Council.</i></p> <p>Finding 14: <i>Certain timesheets submitted by ECM are unsubstantiated.</i></p>

**Los Angeles County Metropolitan Transportation Authority
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2016
(Continued)**

Finding #2016-016 (Continued)	City of South El Monte
Cause	There was a breakdown in the internal controls over procurement at the City.
Effect	For fiscal year 2016, the reimbursements without proper supporting documentation and/or prior written authorization resulted in questioned costs of \$4,015. However, it is uncertain at this point how much of the expenditures in prior years should be questioned due to the findings enumerated above.
Recommendation	In accordance with the Guidelines, we recommend that the City reimburse its Measure R Local Return account \$4,015. We also recommend that the City establish controls to ensure that the expenditures charged to the Local Return funds are adequately supported by contracts, invoices, canceled checks or similar documentation and properly authorized so that the City's expenditures of Local Return funds will be in compliance with the Guidelines.
Management's Response	As of the date of this report, the City management has not provided a response to this finding.

**Los Angeles County Metropolitan Transportation Authority
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Fiscal Year Ended June 30, 2016
(Continued)**

Finding #2016-017	City of South El Monte
Compliance Reference	Measure R Local Return Program Guidelines Section B(VII)(A) states that, "The Measure R LR Audits shall include, but not limited to, verification of adherence to the following financial and compliance provisions of this guidelines: Verification that funds were expended with Metro's approval."
Condition	The City claimed expenditures for the following projects without prior approval from LACMTA: a. Project code 2.16, Rush and Peck Protected Left Turn Phases, amounting to \$1,742; and b. Project code 7.10, San Gabriel Valley Council of Governments (SGVCOG), amounting to \$3,218. The City submitted a revised Expenditure Plan (Form One) to the LACMTA Program Manager and obtained a retroactive approval of the said project on December 22, 2016.
Cause	The City lacks adequate procedures to ensure that a revised Expenditure Plan (Form One) is submitted to obtain approval prior to implementation of a Measure R-funded project.
Effect	The City claimed expenditures totaling \$4,960 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.
Recommendation	We recommend for the City to submit a revised Expenditure Plan (Form One) to obtain approval from LACMTA. In addition, the City should establish procedures and controls to ensure that approval is obtained from LACMTA prior to implementing any Measure R-funded projects.
Management's Response	As of the date of this report, the City management has not provided a response to this finding.
Finding Corrected During the Audit	LACMTA Program Manager granted a retroactive approval of this project on December 22, 2016. No follow up is required.

**Los Angeles County Metropolitan Transportation Authority
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2016
(Continued)**

Finding #2016-018	City of South El Monte
Compliance Reference	Section B(II)(2) of the Measure R Local Return Program Guidelines states that "...Jurisdictions shall submit to LACMTA an Expenditure Report (Form Two), annually, by October 15 th (following the conclusion of the fiscal year)...."
Condition	The City submitted its Expenditure Report (Form Two) on November 7, 2016, which is beyond the due date set under the Guidelines.
Cause	The City lacks adequate procedures and controls to ensure that the Expenditure Report (Form Two) is submitted on time.
Effect	Form Two (Expenditure Report) was not submitted timely as required by the Guidelines.
Recommendation	We recommend for the City to establish procedures and controls to ensure that Expenditure Report (Form Two) is submitted by October 15 as required by the Guidelines.
Management's Response	As of the date of this report, the City management has not provided a response to this finding.
Finding Corrected During the Audit	The City subsequently submitted the form. No follow up is required.



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