

**Proposition A and Proposition C Local Return Funds
Audit Results
For the Fiscal Year Ended June 30, 2022
(Package B)**

Simpson & Simpson, LLP



Proposition A and Proposition C
Independent Citizen's Advisory and Oversight Committee (ICAOC) Meeting
Date: March 13, 2023

Agenda

- ❖ Presenter: Etta Hur, CPA, Partner
 - Background
 - Summary of Audit Results – Findings and Questioned Costs
 - Analysis of Proposition A & C Audit Results
 - S&S Contact Information
 - Questions



Background



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- We have audited the compliance of the 49 cities (49 Jurisdictions under Package B).

- | | |
|----------------------------------|-----------------------------------|
| 1. CITY OF ALHAMBRA | 31. CITY OF PALMDALE |
| 2. CITY OF ARCADIA | 32. CITY OF PALOS VERDES ESTATES |
| 3. CITY OF ARTESIA | 33. CITY OF PARAMOUNT |
| 4. CITY OF AVALON | 34. CITY OF PASADENA |
| 5. CITY OF BELLFLOWER | 35. CITY OF RANCHO PALOS VERDES |
| 6. CITY OF BRADBURY | 36. CITY OF REDONDO BEACH |
| 7. CITY OF BURBANK | 37. CITY OF ROLLING HILLS |
| 8. CITY OF CERRITOS | 38. CITY OF ROLLING HILLS ESTATES |
| 9. CITY OF CLAREMONT | 39. CITY OF SAN DIMAS |
| 10. CITY OF COVINA | 40. CITY OF SAN GABRIEL |
| 11. CITY OF DIAMOND BAR | 41. CITY OF SAN MARINO |
| 12. CITY OF DOWNEY | 42. CITY OF SANTA CLARITA |
| 13. CITY OF DUARTE | 43. CITY OF SIERRA MADRE |
| 14. CITY OF EL SEGUNDO | 44. CITY OF SIGNAL HILL |
| 15. CITY OF GLENDALE | 45. CITY OF SOUTH PASADENA |
| 16. CITY OF GLENDORA | 46. CITY OF TEMPLE CITY |
| 17. CITY OF HAWAIIAN GARDENS | 47. CITY OF TORRANCE |
| 18. CITY OF HERMOSA BEACH | 48. CITY OF WEST COVINA |
| 19. CITY OF LA CANADA FLINTRIDGE | 49. CITY OF WHITTIER |
| 20. CITY OF LA HABRA HEIGHTS | |
| 21. CITY OF LA MIRADA | |
| 22. CITY OF LA VERNE | |
| 23. CITY OF LAKEWOOD | |
| 24. CITY OF LANCASTER | |
| 25. CITY OF LOMITA | |
| 26. CITY OF LONG BEACH | |
| 27. CITY OF LOS ANGELES | |
| 28. CITY OF MANHATTAN BEACH | |
| 29. CITY OF MONROVIA | |
| 30. CITY OF NORWALK | |



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- We conducted our audits of compliance in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in government auditing standards, and the compliance requirements described in Proposition A and Proposition C Ordinances, the Proposition A and Proposition C Local Return Guidelines and the respective Assurances and Understandings Regarding Receipt and Use of Proposition A and Proposition C Local Return Funds.



Summary of Audit Results – Findings and Questioned Costs



Summary of Audit Results

- ❖ We performed all 49 jurisdictions' audits.
 - Total dollar amounts associated with the findings for Proposition A (PALRF) and Proposition C (PCLRF) for the jurisdictions under Package B are as follows:
 - PALRF: Out of total questioned costs of \$1,131,365 in FY2022 compliance audits (About 0.6% of the FY2022 allocations of \$183,252,945), \$938,619 was resolved during the audits.
 - PCLRF: Out of total questioned costs of \$795,824 in FY2022 compliance audits (About 0.5% of the FY2022 allocations of \$152,003,946), \$764,393 was resolved during the audits.
 - We identified 32 non-compliance findings which includes the following:
 - 2 material weaknesses (City of Downey (2))
 - 4 significant deficiencies (City of Artesia (2), City of Bradbury, and City of Palos Verdes Estates)

We will explain the specific conditions for the material weaknesses and the significant deficiencies in internal control over Compliance as we present each finding.



Summary of Audit Results (Cont.)

Finding	# of Findings	Responsible Cities/ Finding Reference	PALRF Questioned Costs	PCLRF Questioned Costs	Resolved During the Audit
Funds were expended with Metro's approval and were not substituted for property tax.	4	Artesia (#2022-006)	-	\$ 31,333	\$ 31,333
		Bradbury (#2022-010)	-	15,701	15,701
		Palos Verdes Estates (#2022-024)	-	10,415	10,415
		Santa Clarita (#2022-029)	-	2,163	2,163
Timely use of funds.	7	Artesia (#2022-003)	\$ 160,899	-	160,899
		Claremont (#2022-011)	116,051	132,824	248,875
		El Segundo (#2022-017)	392,423	-	392,423
		Palos Verdes Estates (#2022-025)	-	12,972	12,972
		Redondo Beach (#2022-027)	-	497,032	497,032
		Signal Hill (#2022-030)	-	61,953	61,953
		South Pasadena (#2022-032)	83,006	-	83,006



Summary of Audit Results (Cont.)

Finding	# of Findings	Responsible Cities/ Finding Reference	PALRF Questioned Costs	PCLRF Questioned Costs	Resolved During the Audit
Expenditures that exceeded 25% of approved project budget have approved amended Project Description Form (Form A) or electronic equivalent.	4	Artesia (#2022-004) Hermosa Beach (#2022-019) La Habra Heights (#2022-020) San Marino (#2022-028)	None None None None	- - - -	None None None None
Annual Project Report (Form B) or electronic equivalent was submitted on time.	2	Artesia (#2022-007) Glendale (#2022-018)	None None	None None	None None



Summary of Audit Results (Cont.)

Finding	# of Findings	Responsible Cities/ Finding Reference	PALRF Questioned Costs	PCLRF Questioned Costs	Resolved During the Audit
Annual Expenditure Report (Form C) or electronic equivalent was submitted on time	6	Artesia (#2022-008) Bradbury (#2022-009) Covina (#2022-012) La Habra Heights (#2022-021) Palmdale (#2022-023) Pasadena (#2022-026)	None None None None None None	None None None None None None	None None None None None None
Recreational transit form was submitted on time.	5	Alhambra (#2022-001) Artesia (#2022-005) Downey (#2022-013) El Segundo (#2022-016) Signal Hill (#2022-031)	None None None None None	- - - - -	None None None None None



Summary of Audit Results (Cont.)

Finding	# of Findings	Responsible Cities/ Finding Reference	PALRF Questioned Costs	PCLRF Questioned Costs	Resolved During the Audit
Pavement Management System (PMS) is in place and being used for Street Maintenance or Improvement Projects Expenditures.	1	La Habra Heights (#2022-022)	-	None	None



Summary of Audit Results (Cont.)

Finding	# of Findings	Responsible Cities/ Finding Reference	PALRF Questioned Costs	PCLRF Questioned Costs	Resolved During the Audit
Accounting procedures, record keeping, and documentation are adequate.	3	Alhambra (#2022-002) Downey (#2022-014) Downey (#2022-015)	1,027 251,269 126,690	425 31,006 -	- 113.032 73.208
Total Findings and Questioned Costs	32		\$ 1,131,365	\$ 795,824	\$ 1,703,012



Material Weaknesses and Significant Deficiencies In Internal Control over Compliance

➤ Two (2) material weaknesses:

City of Downey (Finding #2022-014):

- Salaries and benefits charged were based on an estimate of a percentage of time spent on PALRF and PCLRF activity rather than the employee's actual working hours spent on the project. Moreover, the hours were not adjusted to reflect the "true" hours worked on the projects at the end of the fiscal year 2021-22.
 - PALRF's Fixed Route Project Code 105 in the amount of \$55,663.
 - PALRF's Revised Senior/Handicapped Transit Program Project Code 107 in the amount of \$195,606.
 - PCLRF's Ride Sharing Program Administration Project Code 620 in the amount of \$14,000.
 - PCLRF's Local Return Fund Administration (Public Works) Project Code 620 in the amount of \$17,006.
- This is a repeat finding from the prior six fiscal years.



Material Weaknesses and Significant Deficiencies In Internal Control over Compliance (Cont.)

➤ Two (2) material weaknesses (continued):

City of Downey (Finding #2022-014) (continued) :

- As a resolution to prior years' findings, the City hired an outside consultant (Revenue and Cost Specialists) to prepare an updated Cost Allocation Plan (CAP) and User Fee Study. On January 25, 2022, an executed contract/agreement with Revenue and Cost Specialists was taken to the City Council for approval, with an understanding that the CAP and the User Fee Study will be implemented in fiscal year 2022-23.
- All the department's directors communicated regularly with the CAP consultants until the CAP was finalized and completed in August 2022. Effective in fiscal year 2022-23, the City will allocate the payroll expenditures based on the new cost study.



Material Weaknesses and Significant Deficiencies In Internal Control over Compliance (Cont.)

➤ **Two (2) material weaknesses (continued):**

City of Downey (Finding #2022-014) (continued) :

- With the effort to record expenses in PALRF that is allowable under the new CAP, the City transferred General Fund monies in the amount of \$113,032 to reimburse a portion of the questioned cost of \$195,606 for PALRF's Senior/Handicapped Transit Program Project Code 107, leaving a net questioned cost of \$82,574.
- As a result, the remaining total questioned costs are \$138,237 and \$31,006 for PALRF and PCLRF, respectively. Therefore, we recommend that the City reimburse its PALRF and PCLRF accounts for the said remaining questioned costs.



Material Weaknesses and Significant Deficiencies In Internal Control over Compliance (Cont.)

➤ Two (2) material weaknesses (continued):

City of Downey (Finding #2022-015):

- Payments for equipment rental in the amount of \$126,690 were charged to PALRF's Revised Senior/Handicapped Transit Program, Project Code 107, without appropriate supporting documentation.
- The City allocates equipment rental charges based on a time study from fiscal year 2011-12, and the City believed the estimated percentage is still less than the actual costs incurred for the program.
- This is a repeat finding from the prior five fiscal years.
- With the effort to record expenses in PALRF that is allowable under the new CAP, the City transferred General Fund monies in the amount of \$73,208 to reimburse a portion of the questioned cost of \$126,690 for PALRF's Senior/Handicapped Transit Program Project Code 107, leaving a net questioned cost of \$53,482.



Material Weaknesses and Significant Deficiencies In Internal Control over Compliance (Cont.)

➤ **Four (4) significant deficiencies:**

City of Artesia (Finding #2022-003):

- The City's fiscal year 2019 ending fund balance for PALRF in the amount of \$160,899 was not fully expended within 3 years as of June 30, 2022, and it was not reserved for capital projects as required by the Proposition A and Proposition C Local Return Guidelines.
- This was an oversight on the part of the City.
- This is a repeat finding from the prior fiscal year.
- Resolved During the Audit: On December 16, 2022, Metro granted the City an extension on the usage of lapsed funds until June 30, 2023. No follow-up is required.



Material Weaknesses and Significant Deficiencies In Internal Control over Compliance (Cont.)

➤ **Four (4) significant deficiencies (continued):**

City of Artesia (Finding #2022-006):

- The City incurred expenditures prior to receiving approval from Metro PCLRF Project Code 705, ATP Cycle 3, in the amount of \$31,333.
- This was an oversight on the part of the City.
- This is a repeat finding from the prior fiscal year.
- Resolved During the Audit: Metro Program Manager granted retroactive budget approval of the said project on December 23, 2022. No follow-up is required.



Material Weaknesses and Significant Deficiencies In Internal Control over Compliance (Cont.)

➤ **Four (4) significant deficiencies (continued):**

City of Bradbury (Finding #2022-009):

- The City did not meet the October 15, 2022 deadline for submitting the Annual Expenditure Report in the Local Return Management System (LRMS).
- This is a repeat finding from the prior fiscal year.
- The City has a new Finance Director during fiscal year 2022 and was unaware of the compliance requirement of Local Return Funds.
- Resolved During the Audit: The City subsequently entered the required information in the LRMS on November 4, 2022.



Material Weaknesses and Significant Deficiencies In Internal Control over Compliance (Cont.)

➤ Four (4) significant deficiencies (continued):

City of Palos Verdes Estates (Finding #2022-025):

- The City's fiscal year 2019 ending fund balance in the amount of \$12,972 was not fully expended within 3 years as of June 30, 2022, and it was not reserved for capital projects as required by the Prop C Local Return Guidelines.
- The lapse of funds was due to oversight by the City.
- This is a repeat finding from the prior fiscal year.
- Resolved During the Audit: On December 1, 2022, Metro granted the City an extension on the usage of lapsed funds until June 30, 2023

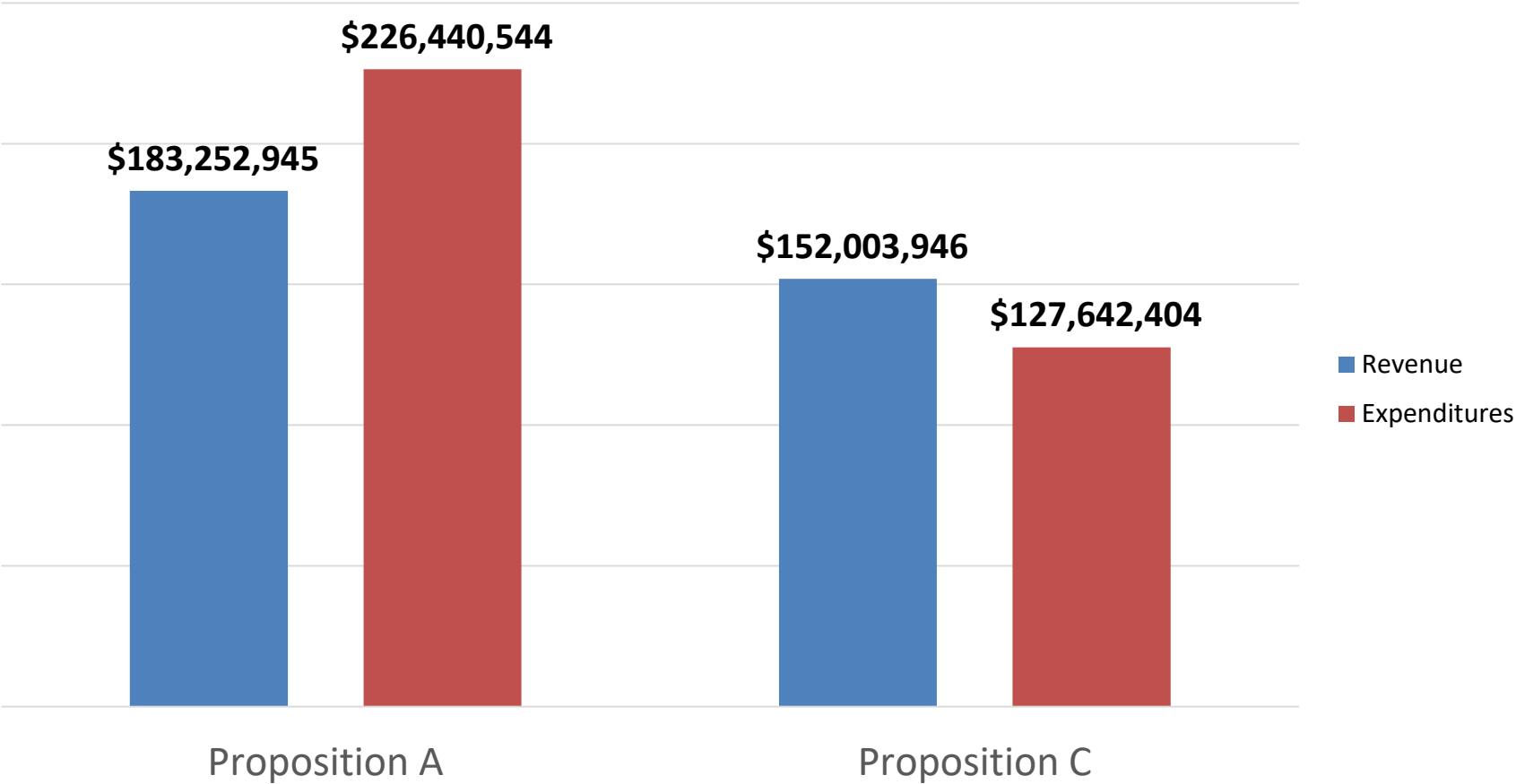


Analysis of Audit Results



Revenue and Expenditures of 49 Jurisdictions

FY 2022 Revenue and Expenditures – Proposition A & C



Simpson & Simpson CPAs

Contact information

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Questions

