



**City of Montebello
Transit System Fund
Financial Statements
*As of and for the Years Ended June 30, 2016 and 2015
with Report of Independent Auditors***

**City of Montebello
Transit System Fund
Financial Statements**
*As of and for the Years Ended June 30, 2016 and 2015
with Report of Independent Auditors*

	<u>PAGE</u>
REPORT OF INDEPENDENT AUDITORS	1
AUDITED FINANCIAL STATEMENTS	
Statements of Net Position	3
Statements of Revenues, Expenses, and Changes in Net Position	4
Statements of Cash Flows	5
Notes to Financial Statements	6
REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13
SCHEDULE OF FINDINGS AND RECOMMENDATIONS	15
STATUS OF PRIOR AUDIT FINDINGS	16

Report of Independent Auditors

**To the Honorable City Council
Montebello, California**

Report on the Financial Statements

We have audited the accompanying financial statements of the Transit System Fund (the Transit Fund), an enterprise fund of the City of Montebello, as of and for the year ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Transit Fund's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Transit System Fund of the City of Montebello as of June 30, 2016 and 2015, and the changes in its financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Transit Fund and do not purport to, and do not, present fairly the financial position of the City of Montebello, California, as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2016, on our consideration of the City of Montebello Transit System Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Montebello Transit System Fund's internal control over financial reporting and compliance.

Vasquez + Company LLP

**Los Angeles, California
December 21, 2016**

**City of Montebello
Transit System Fund
Statements of Net Position**

		June 30	
		2016	2015
ASSETS			
Current assets			
Cash and investments	\$	3,621,791	\$ 5,232,795
Grants receivable		2,573,688	1,507,678
Inventories		218,802	185,734
Prepaid expenses		186,880	190,683
Total current assets		6,601,161	7,116,890
Noncurrent assets			
Capital assets		91,248,678	90,224,343
Accumulated depreciation		(47,377,253)	(43,550,648)
Net capital assets		43,871,425	46,673,695
Total assets		50,472,586	53,790,585
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions		5,401,925	1,893,800
LIABILITIES			
Current liabilities			
Accounts payable		521,043	657,649
Other accrued liabilities		541,283	791,793
Compensated absences, due within one year		883,203	795,515
Unearned revenue		2,466,699	2,402,194
Total current liabilities		4,412,228	4,647,151
Noncurrent liabilities			
Compensated absences, due after one year		28,197	153,516
Net pension liability		23,285,603	21,584,940
Total noncurrent liabilities		23,313,800	21,738,456
Total liabilities		27,726,028	26,385,607
DEFERRED INFLOWS OF RESOURCES			
Deferred infows of resources related to pensions		5,956,685	5,310,654
NET POSITION			
Net investment in capital assets		43,871,425	46,673,695
Unrestricted		(21,679,627)	(22,685,571)
Total net position	\$	22,191,798	\$ 23,988,124

See notes to financial statements.

City of Montebello
Transit System Fund

Statements of Revenues, Expenses, and Changes in Net Position

	Year ended June 30,	
	2016	2015
Operating revenues		
Bus fares	\$ 5,162,472	\$ 5,670,177
Other revenues	517,755	168,501
Total operating revenues	5,680,227	5,838,678
Operating expenses		
Labor and fringe benefits	15,575,735	16,281,033
Vehicle expenses	4,469,046	4,977,004
Administrative costs	1,620,931	1,500,000
Professional fees and other contracts	2,439,318	2,187,838
Utilities and other services	391,785	384,874
Other	207,396	424,970
Depreciation	3,826,607	3,801,305
Total operating expenses	28,530,818	29,557,024
Operating loss	(22,850,591)	(23,718,346)
Nonoperating revenues		
Operating subsidies:		
Proposition "A" discretionary	5,140,927	5,084,565
Proposition "C" discretionary	3,546,276	3,516,300
Measure R	3,157,026	3,268,292
State transit assistance	7,470,437	9,044,906
Subtotal - operating subsidies	19,314,666	20,914,063
Interest income	13,340	6,433
Total nonoperating revenues	19,328,006	20,920,496
Loss before capital grants	(3,522,585)	(2,797,850)
Capital grants		
State grant - capital/discretionary	635,808	738,602
Federal grant - capital	1,090,451	1,042,365
Total capital grants	1,726,259	1,780,967
Loss before transfer	(1,796,326)	(1,016,883)
Transfers from other City funds	-	172,123
Change in net position	(1,796,326)	(844,760)
Net position, beginning of year	23,988,124	24,832,884
Net position, end of year	\$ 22,191,798	\$ 23,988,124

See notes to financial statements.

**City of Montebello
Transit System Fund
Statements of Cash Flows**

	Year ended June 30,	
	2016	2015
Cash flows from operating activities		
Receipts from customers	\$ 5,162,472	\$ 5,559,735
Other receipts	517,755	168,501
Payments to suppliers	(10,706,290)	(9,843,946)
Payments to employees	(15,613,366)	(16,304,635)
Net cash used in operating activities	(20,639,429)	(20,420,345)
Cash flows from noncapital financing activities		
Operating subsidies received from Federal and State	18,313,161	20,674,109
Transfers from other City funds	-	172,123
Net cash provided by noncapital and financing activities	18,313,161	20,846,232
Cash flows from capital and related financing activities		
Interest received	13,340	6,433
Capital contributed by federal and state grants	1,726,259	1,780,967
Proceeds from sale of capital assets	-	56,717
Acquisition of capital assets	(1,024,335)	(703,303)
Net cash provided by capital and related financing activities	715,264	1,140,814
Change in cash and cash equivalents	(1,611,004)	1,566,701
Cash and cash equivalents, beginning of year	5,232,795	3,666,094
Cash and cash equivalents, end of year	\$ 3,621,791	\$ 5,232,795
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$ (22,850,591)	\$ (23,718,346)
Depreciation	3,826,605	3,801,305
Loss from disposal of capital assets	-	91,456
Changes in assets and liabilities:		
(Increase) decrease in inventories	(33,068)	125,907
(Increase) decrease in prepaid expenses	3,803	(189,784)
(Increase) decrease in deferred outflows of resources	(3,508,125)	6,700
Increase (decrease) in accounts payable	(136,606)	43,714
Increase (decrease) in accrued liabilities	(250,510)	(140,956)
Increase (decrease) in compensated absences	(37,631)	(23,602)
Increase (decrease) in deferred inflows of resources	646,031	5,310,654
Increase (decrease) in net pension liability	1,700,663	(5,727,393)
Net cash used in operating activities	\$ (20,639,429)	\$ (20,420,345)

See notes to financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Transit System Fund of the City of Montebello, California (the Transit Fund), an enterprise fund, accounts for all revenues and expenses related to the operations of the City's transit service. The accounting policies of the Transit Fund conform to accounting principles generally accepted in the United States of America. The following is a summary of the significant policies applied in the preparation of the financial statements.

Fund Accounting

All transactions of the Transit Fund are included in the reporting entity of the City of Montebello (the City) and are recorded in a separate fund of the City. As such, the accompanying financial statements present only the Transit Fund and do not purport to, and do not, present fairly the financial position and the changes in financial position of the City of Montebello, California, as of and for the years ended June 30, 2016 and 2015. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording resources, related liabilities, deferred inflows and outflows, reserves, and equities segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Implementation of New Accounting Pronouncements

During the fiscal year ended June 30, 2016, the City and the Transit Fund adopted the following new Statements of the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 72, *Fair Value Measurements and Applications*. This statement provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of this statement did not have a significant impact on the Transit Fund's financial statements for the fiscal year ended June 30, 2016.

- GASB Statement No. 76, *the Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. The implementation of this statement did not materially impact the Transit Fund's financial statements for the fiscal year ended June 30, 2016.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pension

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pension, and pension expense, information about the fiduciary net position of the City of Montebello's California Public Employees' Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The City allocates about 60% of the Miscellaneous Plan's net pension liability and pension-related transactions to the Transit Fund based on the Transit Fund's share in the pension contribution.

Refer to the City's Comprehensive Annual Financial Report for additional information about the City's Pension Plan.

Basis of Accounting

The Transit Fund uses the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recorded when the related liability is incurred.

Cash and Cash Equivalents

All cash and investments are maintained in the City's cash and investment pool. Therefore, all cash and investments in the Transit Fund are considered cash and cash equivalents, as they are available on demand.

Capital Assets

Capital assets are recorded at historical cost or estimated fair market value at the date of contribution. Generally, capital asset purchases in excess of \$5,000 are capitalized if they have an expected life of one or more years.

Provision for depreciation has been provided over the estimated useful lives of the capital assets using the straight-line method. The estimated useful lives are as follows:

Office equipment	5-10 years
Computer equipment	8 years
Electrical equipment	8-10 years
Machinery and equipment (<i>includes buses</i>)	5-15 years
Buildings	10-40 years

Interest Earned

The City's cash and investments are managed on a pooled basis. In accordance with the administrative policy of the City, interest on such pooled resources is accrued to each fund based on the equity of a particular fund in the pooled cash and investments.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unearned Revenue

Grants received by the City for the acquisition of capital assets and certain operating expenses are recorded as unearned revenue until such time as the capital assets are acquired or as the expenses are incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Specifically, the Transit Fund has made certain estimates and assumptions relating to the collectability of its receivables and the useful lives of the capital assets. Actual results could differ from those estimates and assumptions.

NOTE 2 CASH AND CASH EQUIVALENTS

Cash and deposits of the Transit Fund are pooled with other City funds to improve investment opportunities and provide sufficient coverage for checks as they are presented at the City's bank. State statutes and the City's investment policy authorize City officials to invest its pooled funds in obligations of the United States Treasury or its agencies, bankers' acceptances, State Treasurer's investment pool, certificates of deposit, passbook savings account demand deposits, repurchase agreements, and money market funds. As of June 30, 2016 and 2015, the cash and cash equivalents balance of the Transit Fund totaled \$3,621,791 and \$5,232,795, respectively. Further information concerning the City's investment policy regarding custodial risk, concentrations of credit risk, interest rate risk and fair value measurement can be found in the City's Comprehensive Annual Financial Report.

**City of Montebello
Transit System Fund
Notes to Financial Statements
Years ended June 30, 2016 and 2015**

NOTE 3 CAPITAL ASSETS

Capital assets of the Transit Fund as of June 30, 2016 and 2015 were as follows:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Reclassifications / Deletions</u>	<u>Balance June 30, 2016</u>
Capital assets not being depreciated:				
Land	\$ 3,901,596	\$ -	\$ -	\$ 3,901,596
Construction in progress	3,479,522	527,662	-	4,007,184
	<u>7,381,118</u>	<u>527,662</u>	<u>-</u>	<u>7,908,780</u>
Capital assets being depreciated:				
Buildings and improvements	25,505,936	-	-	25,505,936
Machinery and equipment *	57,337,289	496,673	-	57,833,962
Total capital assets being depreciated	<u>82,843,225</u>	<u>496,673</u>	<u>-</u>	<u>83,339,898</u>
Less: Accumulated depreciation:	<u>43,550,648</u>	<u>3,826,605</u>	<u>-</u>	<u>47,377,253</u>
Net capital assets being depreciated	<u>39,292,577</u>	<u>(3,329,932)</u>	<u>-</u>	<u>35,962,645</u>
Net capital assets	<u>\$ 46,673,695</u>	<u>\$ (2,802,270)</u>	<u>\$ -</u>	<u>\$ 43,871,425</u>

* Machinery and equipment includes buses

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Reclassifications / Deletions</u>	<u>Balance June 30, 2015</u>
Capital assets not being depreciated:				
Land	\$ 3,901,596	\$ -	\$ -	\$ 3,901,596
Construction in progress	3,206,706	272,816	-	3,479,522
	<u>7,108,302</u>	<u>272,816</u>	<u>-</u>	<u>7,381,118</u>
Capital assets being depreciated:				
Buildings and improvements	25,231,622	274,314	-	25,505,936
Machinery and equipment *	61,582,278	156,173	(4,401,162)	57,337,289
Total capital assets being depreciated	<u>86,813,900</u>	<u>430,487</u>	<u>(4,401,162)</u>	<u>82,843,225</u>
Less: Accumulated depreciation:	<u>44,002,332</u>	<u>3,801,305</u>	<u>(4,252,989)</u>	<u>43,550,648</u>
Net capital assets being depreciated	<u>42,811,568</u>	<u>(3,370,818)</u>	<u>(148,173)</u>	<u>39,292,577</u>
Net capital assets	<u>\$ 49,919,870</u>	<u>\$ (3,098,002)</u>	<u>\$ (148,173)</u>	<u>\$ 46,673,695</u>

* Machinery and equipment includes buses

Depreciation expenses charged to operations for the years ended June 30, 2016 and 2015 were \$3,826,605 and \$3,801,305, respectively.

NOTE 4 PENSION PLAN

General Information about the Pension Plan

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the City of Montebello's Miscellaneous Plan, an agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statute and Commission resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

With the implementation of GASB Statement No. 68, the City of Montebello allocated about 60% of the City's Miscellaneous Plan net pension liability and pension-related transactions to the Transit Fund based on the Transit Fund's share of the pension contribution during the fiscal years ended June 30, 2016 and 2015. As a result, the Transit Fund reported a net pension liability of \$23,285,603 and \$21,584,940 as of June 30, 2016 and 2015, respectively. Refer to the City's comprehensive annual financial report for the fiscal year ended June 30, 2016 for more information about the City's pension plan required note disclosures in accordance with GASB Statement No. 68.

NOTE 5 PUBLIC TRANSPORTATION MODERNIZATION IMPROVEMENTS AND SERVICE ENHANCEMENT ACCOUNT

In November 2006, California voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006. Of the \$19.925 billion of State general obligation bonds authorized, \$4 billion was set aside by the State as instructed by the bond measure in a Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA). These funds are available to the California Department of Transportation for intercity rail projects and to transit operators in California for rehabilitation, safety or modernization improvements, capital service enhancements or expansions, new capital projects, bus rapid transit improvements, or for rolling stock procurement, rehabilitation, or replacement.

The City received a total of \$2,370,983 of PTMISEA funds from 2008 to 2010. These funds were fully expended as of June 30, 2011. The City did not receive any PTMISEA funds during the fiscal year ended June 30, 2012.

During the fiscal year ended June 30, 2013, the City received \$1,992,125 in PTMISEA funds. The table below shows the activities of these funds and remaining unexpended balance as of June 30, 2016:

Project Description	Proceeds received	Interest earned to-date	Adjustments	Total Allocation	Expenditures Incurred to-date	Unexpended proceeds
Alternative Fuel Bus Replacement Project	\$ 800,945	\$ 3,115	\$ 23,284	\$ 827,344	\$ 553,507	\$ 273,837
Seven Expansion CNG Buses	483,000	1,216	(484,216)	-	-	-
Four Repower of Hybrid Buses	144,000	1,375	-	145,375	-	145,375
Passenger Information System	241,680	761	-	242,441	223,147	19,294
Bus Wash Facility Upgrade	60,000	573	-	60,573	-	60,573
Bus Stop Improvement Project	142,500	1,361	-	143,861	-	143,861
Transit Facility Master Plan	120,000	1,147	-	121,147	-	121,147
Metrolink ADA Upgrades	-	2,879	484,216	487,095	98,738	388,357
Total	\$ 1,992,125	\$ 12,427	\$ 23,284	\$ 2,027,836	\$ 875,392	\$ 1,152,444

There were no additional funds received during the fiscal years ended June 30, 2014, 2015 and 2016. The unexpended proceeds of \$1,152,444 was reported as unearned revenue. The remaining balance of \$1,314,255 in the unearned revenue account represents other unspent transit grants and subsidies received mostly from the Los Angeles County Metropolitan Transportation Authority. This unexpended balance has been programmed into the City's financial plan.

NOTE 6 TRANSPORTATION DEVELOPMENT ACT

The State of California established the Transportation Development Act (TDA) to provide funds for public transportation. The funds are administered by the Los Angeles County Metropolitan Transportation Authority. The TDA created a Local Transportation Fund (LTF) in each county for transportation purposes specified in the Transportation Development Act Statutes and Administrative Code. Revenues of the LTF are derived from a 1/4 of one percent sales tax rate levied in each county. In order to qualify for funding under TDA, the City of Montebello Transit System Fund must maintain a ratio of fare revenues and local support to operating cost greater than 20%.

In accordance with the requirements of the TDA, the following fare ratio calculation is presented (in thousands of dollars):

	2016	2015
Operating revenues		
Bus fares	\$ 5,162	\$ 5,670
Total operating revenues	\$ 5,162	\$ 5,670
Operating expenses		
Labor and fringe benefits	\$ 15,576	\$ 16,281
Vehicle expenses	4,469	4,977
Administrative costs	1,621	1,500
Professional fees and other contracts	2,439	2,188
Utilities and other services	392	385
Other	207	425
Depreciation	<u>3,827</u>	<u>3,801</u>
Total operating expense	28,531	29,557
Less: Depreciation expense	<u>(3,827)</u>	<u>(3,801)</u>
Net operating expenses	\$ 24,704	\$ 25,756
Fare Ratio	<u>21%</u>	<u>22%</u>

NOTE 7 SUBSEQUENT EVENTS

The City has evaluated events subsequent to June 30, 2016 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through December 21, 2016, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.

**Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

**The Honorable Mayor and Members of the City Council
City of Montebello
Montebello, California**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Transit System Fund (the Transit Fund) of the City of Montebello, California (the City), an enterprise fund of the City of Montebello, as of and for the year ended June 30, 2016, and the related notes to the financial statements, as listed in the table of contents, and have issued our report thereon dated December 21, 2016.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Transit Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, contained in the *Transportation Development Act Conformance Auditing Guide issued by the Los Angeles County Metropolitan Transportation Authority (LACMTA)*, the audit provisions of the Public Utilities Code (PUC) Section 99245 and the *California Department of Transportation Public Transportation Modernization, Improvement and Service Enhancement Account (PTMISEA) Guidelines*, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters, which is described in the accompanying Schedule of Findings and Recommendations as Finding #2016-001, that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Vasquez + Company LLP

**Los Angeles, California
December 21, 2016**

Finding #2016-001

Condition

In prior years including a portion of fiscal year 2016, the attendance and payroll records initiated by and maintained at the Transit Department did not accurately reflect all paid and unpaid time off and the related compensation due to the employees. The City identified this matter and engaged an outside consultant to review historical records and calculate any amounts owed from or to individual employees. The City posted an adjustment to record the related liability proposed by the outside consultant.

Cause

These exceptions were caused primarily by a misunderstanding of the regulations and the Memorandum of Understanding (MOU) with the employee groups.

Recommendation

We recommend the City implement additional training and review procedures to provide assurance that exceptions of this type do not occur in the future.

Views of Responsible Officials and Planned Corrective Action

Misinterpretation of the policy/ Memorandum of Understanding (MOU) was the only factor in this case. Once the issues were identified, all corrective measures were taken to resolve the issue and correct moving forward.

Corrective Action Plans:

- Finance, Transit, and Human Resources Department will meet and interpret any new MOU or updates to policies related to payroll.
- Transit management will relay the information to Transit's payroll staff through training and monthly meetings.
- Quarterly meetings with the Finance Department to review current process and any new updates.

**City of Montebello
Transit System Fund
Status of Prior Audit Findings
Year ended June 30, 2015**

There were no findings noted during the fiscal year ended June 30, 2015.



www.vasquezcpa.com

Vasquez & Company LLP has over 45 years of experience in performing audit, accounting & consulting services for all types of nonprofit organizations, for-profit companies, governmental entities and publicly traded companies. Vasquez is a member of the RSM US Alliance. RSM US Alliance provides its members with access to resources of RSM US LLP. RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International. Visit rsmus.com/about-us for more information regarding RSM US LLP and RSM International. The RSM™ logo is used under license by RSM US LLP. RSM US Alliance products and services are proprietary to RSM US LLP.

801 South Grand Avenue, Suite 400 • Los Angeles, California 90017-4646 • Ph. (213) 873-1700 • Fax (213) 873-1777