

RON GALPERIN
CONTROLLER

February 13, 2014

Honorable Members of the City Council
of the City of Los Angeles

Dear Honorable Members:

**SUBJECT: FISCAL YEAR 2012-13 AUDITED FINANCIAL STATEMENTS OF THE
MOBILE SOURCE AIR POLLUTION REDUCTION PROGRAM**

Attached to this transmittal are four copies of the fiscal year 2012-13 audited financial statements of the Mobile Source Air Pollution Reduction Program. The program was audited by Simpson & Simpson, CPA's, under contract by the City Council to perform various audits of the City's financial operations as the City's external auditors and file audit reports with the City Council.

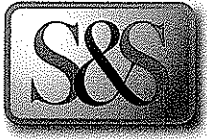
If you have any questions, please contact Todd Bouey of the Financial Analysis and Reporting Division at (213) 978-7203.

Sincerely,

A handwritten signature in black ink that reads "Claire Bartels".

CLAIRE BARTELS
Chief Deputy Controller

Attachments



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRANARD C. SIMPSON, CPA
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February 10, 2014

Audit and Governmental Efficiency Committee
Los Angeles City Council
c/o City Clerk
City Hall, Room 395
200 North Spring Street
Los Angeles, California 90012

Enclosed are the financial statements with independent auditor's report for the Mobile Source Air Pollution Reduction Trust Fund (Fund) of the City of Los Angeles for the fiscal year ended June 30, 2013.

We conducted our audit 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. As indicated in our report dated January 24, 2014, we expressed an unmodified opinion on the financial statements indicating that they present fairly, in all material respects, the respective financial position of the Fund of the City of Los Angeles as of June 30, 2013, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We noted an instance of noncompliance, which we have described in the Schedule of Finding and Recommendation and communicated to management.

If you have any questions, please contact us at (213) 736-6664.

Sincerely,

A handwritten signature in cursive script that reads "Simpson & Simpson".

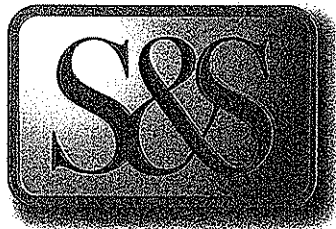
Simpson & Simpson

Enclosures: 4

Cc: Todd Bouey – Controller's Office with 2 Enclosures
Detrich Allen – Department of Transportation with 4 Enclosures



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***CITY OF LOS ANGELES, CALIFORNIA
MOBILE SOURCE AIR POLLUTION
REDUCTION TRUST FUND
FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORTS
JUNE 30, 2013***



CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION TRUST FUND
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INDEPENDENT AUDITOR'S REPORT

Honorable Members of
the City Council
City of Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Mobile Source Air Pollution Reduction Trust Fund (Fund) of the City of Los Angeles, California (City), as of and for the year ended June 30, 2013, and the related notes to the 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 Fund as of June 30, 2013, and the changes in financial position, thereof for the Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements presented only the Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2013, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 13 and 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2014 on our consideration of the City's internal control over financial reporting for the Fund 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's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read 'Stimpson & Stimpson'. The signature is written in a cursive, flowing style.

Los Angeles, California
January 24, 2014

CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION TRUST FUND
BALANCE SHEET
June 30, 2013

ASSETS

Cash and Pooled Investments (Note 3)	\$ 2,832,450
Due from Other Governmental Agency (Note 4)	1,208,286
Investment Income Receivable	<u>11,135</u>
 Total Assets	 <u>\$ 4,051,871</u>

LIABILITIES AND FUND BALANCE

Liabilities:	
Accounts Payable	\$ 2,625
Due to other City Funds (Note 5)	360,525
Deferred Revenue	4,208
Obligations Under Securities Lending Transactions	11,759
Other Liabilities (Note 6)	<u>31,322</u>
 Total Liabilities	 <u>410,439</u>
 Fund Balance:	
Restricted for Health, Environment and Sanitation Programs	<u>3,641,432</u>
 Total Fund Balance	 <u>3,641,432</u>
 Total Liabilities and Fund Balance	 <u>\$ 4,051,871</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION TRUST FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended June 30, 2013**

Revenues:	
Motor Vehicle Registration Fees – Subvention Fund	\$ 4,614,536
Investment Income	44,226
Change in Fair Value of Investment	<u>(41,089)</u>
 Total Revenues	 <u>4,617,673</u>
 Expenditures:	
Direct Program	4,262,239
Administrative	<u>79,946</u>
 Total Expenditures	 <u>4,342,185</u>
 Net Change in Fund Balance	 275,488
Fund Balance, July 1, 2012	<u>3,365,944</u>
 Fund Balance, June 30, 2013	 <u><u>\$ 3,641,432</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION TRUST FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

1. GENERAL INFORMATION

The South Coast Air Quality Management District (SCAQMD) is authorized under California Health and Safety Code Sections 44220 through 44247 to impose a motor vehicle registration fee to be used by SCAQMD and local governments specially for programs to reduce air pollution from mobile sources and related planning, monitoring, enforcement, and technical studies necessary for the implementation of the California Clean Air Act of 1988. The California Department of Motor Vehicles collects the vehicle registration fee and subvenes it to SCAQMD. Upon receipt of these fees, 40% of the revenue is placed in a special revenue fund designated as the Mobile Source Air Pollution Reduction Trust Fund.

California Health and Safety Code Section 44243 requires cities and counties receiving the AB 2766 funds to separately account for the revenues and to expend the revenue for the air pollution reduction measures pursuant to the Clean Air Act Amendments of 1990, the California Clean Air Act of 1988 or the SCAQMD's Air Quality Management Plan pursuant to Article 5 of Chapter 5.5 of Part 3 of the California Health and Safety Code.

The accompanying financial statements are intended to reflect the financial position and results of operations for the City of Los Angeles Mobile Source Pollution Reduction Trust Fund (Fund) only. These Statements are exclusively for the Fund and do not purport to, and do not present fairly the financial position and changes in the financial position for the City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting

The balance sheet and the statement of revenues, expenditures and changes in fund balance are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when liability is incurred, as under accrual accounting.

CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION TRUST FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Program's annual budget is prepared on a modified cash basis of accounting, which is different from generally accepted accounting principles (GAAP). Revenues are recognized when cash is received, and expenditures include both cash disbursements and current year encumbered appropriations that has not been paid at the end of the budget year. To provide a meaningful comparison of actual results with the budget, the actual results of the Program are presented in the Budgetary Comparison Information – Budget and Actual (non-GAAP Budgetary Basis) in accordance with the budgetary basis of accounting.

The Program uses encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances outstanding at year-end are reported as a reservation of fund balance since they do not represent expenditures or liabilities. These commitments will be honored in subsequent year carry-forward appropriations.

b. Deferred Revenue

Deferred revenue arises when potential revenue does not meet both the “measurable” and “available” criteria for recognition. Deferred revenue also arises when the City receives resources before it has a legal claim to them. In subsequent periods, when both the revenue criteria are met, or when the City has a legal claim to the resources, the deferred revenue is removed from the balance sheet and revenue is recognized.

c. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts in the financial statements and accompanying notes. Actual results could differ from the estimates.

3. CASH AND POOLED INVESTMENTS

Cash and Investments Held by City Treasurer

The Fund participates in the City's general cash and pooled investment program. As of June 30, 2013, cash and pooled investment of the Fund held by the City Treasurer were \$2,832,450. The Fund's participation in the City's general and special investment pools was approximately 0.03%. Interest earned on pooled investments is allocated to the Fund. Interest earned from the general pool is apportioned to the Fund based on the relationship of the Fund's respective daily cash balances to aggregate cash and pooled investments.

CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION TRUST FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013
(Continued)

3. CASH AND POOLED INVESTMENTS (Continued)

The cash balances of substantially all funds on deposit in the City Treasury are pooled and invested by the City Treasurer for the purpose of maximizing interest earnings through pooled investment activities but safety and liquidity still take precedence over return. Interest earned on pooled investments is allocated to the participating funds based on each fund's average daily deposit balance during the allocation period with all remaining interest allocated to the General Fund. Investments in the City Treasury are stated at fair value based on quoted market prices except for money market investments that have remaining maturities of one year or less at time of purchase, which are reported at amortized cost.

Pursuant to California Government Code Section 53607 and the Los Angeles City Council File No. 94-2160, the City Treasury shall render to the City Council a statement of investment policy (the Policy) annually. City Council File No. 11-1740 was adopted on October 23, 2012, as the City's investment policy. This Policy shall remain in effect until the City Council and the Mayor approve a subsequent revision. The Policy governs the City's pooled investment practices. The Policy addresses soundness of financial institutions in which the Treasurer will deposit funds and types of investment instruments permitted by California Government Code Sections 53600-53635 and 16429.1.

Examples of investments permitted by the Policy are obligations of the U.S. Treasury and government agencies, local agency bonds, commercial paper notes, certificates of deposit (CD) placement service, bankers' acceptances, medium term notes, repurchase agreements, mutual funds, money market mutual funds, and the State of California Local Agency Investment Fund.

At June 30, 2013 the investments held in the City Treasury's General and Special Investment Pool Programs and their maturities are as follows:

Type of Investments	Amount	Investment Maturities				
		1 to 30 Days	31 to 60 Days	61 to 365 Days	366 Days to 5 Years	Over 5 years
U.S. Treasury Notes	\$ 3,705,029,782	\$ --	\$ --	\$ --	\$ 3,687,736,237	\$ 17,293,545
U.S. Treasury Bills	184,539,504	20,998,801	--	163,540,703	--	--
U.S. Sponsored Agency Issues	1,980,333,868	153,075,845	240,941,964	512,318,321	1,060,251,625	13,746,113
Medium Term Notes	1,467,555,595	8,913,261	32,360,499	201,291,887	1,224,989,948	--
Commercial Paper	1,071,320,949	962,230,763	33,998,921	75,091,265	--	--
Municipal Bonds	9,774,175	--	--	--	9,774,175	--
Certificates of Deposit	7,000,000	--	--	7,000,000	--	--
Short Term Investment Funds	22,261,396	22,261,396	--	--	--	--
Securities Lending Short- Term Collateral Investment Pool	31,659,069	31,659,069	--	--	--	--
Total General and Special Pools	\$ 8,479,474,338	\$ 1,199,139,135	\$ 307,301,384	\$ 959,242,176	\$ 5,982,751,985	\$ 31,039,658

CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION TRUST FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013
(Continued)

3. CASH AND POOLED INVESTMENTS (Continued)

Interest Rate Risk. The Policy limits the maturity of its investments to five years for the U.S. Treasury and government agency securities, medium term notes, CD placement service, negotiable certificate of deposits, collateralized bank deposits, mortgage pass-through securities, and bank/time deposits; one year for repurchase agreements; 270 days for commercial paper; 180 days for bankers' acceptances; and 92 days for reverse repurchase agreements. The Policy also allows City funds with longer-term investments horizons, to be invested in securities that at the time of the investment have a term remaining to maturity in excess of five years, but with a maximum final maturity of thirty years.

Credit Risk. The Policy establishes minimum credit ratings requirement for investments. There is no credit quality requirement for local agency bonds, U.S. Treasury Obligations, State of California Obligations, California Local Agency Obligations, and U.S. Sponsored Agencies (U.S. government sponsored enterprises) securities. The City's \$2.0 billion investments in U.S. government sponsored enterprises consist of securities issued by the Federal Home Loan Bank - \$292.5 million, Federal National Mortgage Association - \$880.9 million, Federal Home Loan Mortgage Corporation - \$617.1 million, Federal Farm Credit Bank - \$121.7 million, Tennessee Valley Authority - \$62.0 million and Farmer Mac Discount Note - \$6.1 million. Of the City's \$2.0 billion investments in U.S. Sponsored Agencies securities, \$1,281.6 million were rated "AA+" by S&P and "Aaa" by Moody's; \$698.7 million were not rated individually by S&P nor Moody's (issuers of these securities are rated "A-1+" by S&P and "P-1" by Moody's).

Medium term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Medium term notes must have at least an "A" rating. The City's \$1.5 billion investments in medium term notes consist of securities issued by banks and corporations that comply with these requirements and were rated "A" or better by S&P and "A3" or better by Moody's. Subsequent to purchase, one issuer of \$12.0 million medium term notes was downgraded to "BBB" by S&P and Baa1 by Moody's.

Commercial paper issues must have a minimum of "A-1" or equivalent rating. If the issuer has issued long-term debt, it must be rated "A" without regard to modifiers. Issuing corporation must be organized and operating within the United States and have assets in excess of \$500.0 million. Of the City's \$1.1 billion investments in commercial paper, \$971.0 million were rated A-1+/A-1 by S&P and P-1 by Moody's; \$33.0 million were rated P-1 by Moody's and not rated by S&P; \$67.3 million were not rated individually by S&P nor Moody's. The issuers of the certificates of deposit and municipal bonds were not rated.

CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION TRUST FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013
(Continued)

3. CASH AND POOLED INVESTMENTS (Continued)

Concentration of Credit Risk. The Policy does not allow more than 40% of its investment portfolio be invested in commercial paper and bankers' acceptances, 30% in certificates of deposit and medium term notes, 20% in mutual funds, money market mutual funds and mortgage pass-through securities. The Policy further provides for a maximum concentration limit of 10% in any one issuer of commercial paper as well as in any one mutual fund, and 30% in bankers' acceptances of any one commercial bank. There is no percentage limitation on the amount that can be invested in the U.S. government agencies. The City's pooled investments comply with these requirements. GAAP requires disclosure of certain investments in any one issuer that represent 5% or more of total investments. Of the City's total pooled investments as of June 30, 2013, \$617.1 million (7%) was invested in securities issued by Federal Home Loan Mortgage Corporation, and \$880.9 million (10%) was invested in securities issued by Federal National Mortgage Association.

General Investment Pool Securities Lending Program. Securities lending is permitted and limited under provisions of California Government Code Section 53601. The City Council approved the Securities Lending Program (the SLP) on October 22, 1991 under Council File No. 91-1860, which complies with the California Government Code. The objectives of the SLP in priority order are: safety of loaned securities; and prudent investment of cash collateral to enhance revenue from the investment program. The SLP is governed by a separate policy and guidelines.

The City's custodial bank acts as the securities lending agent. In the event a counterparty defaults by reason of an act of insolvency, the bank shall take all actions which it deems necessary or appropriate to liquidate permitted investment and collateral in connection with such transaction and shall make a reasonable effort for two business days (Replacement Period) to apply the proceeds thereof to the purchase of securities identical to the loaned securities not returned. If during the Replacement Period the collateral liquidation proceeds are insufficient to replace any of the loaned securities not returned, the bank shall, subject to payment by the City of the amount of any losses on any permitted investments, pay such additional amounts as necessary to make such replacement.

Under the provisions of the SLP, and in accordance with the California Government Code, no more than 20% of the market value of the General Investment Pool (the Pool) is available for lending. The City receives cash as collateral on loaned securities, which is reinvested in securities permitted under the Policy. In addition, the City receives securities as collateral on loaned securities, which the City has no ability to pledge or sell without borrower default. In accordance with the California Government Code the securities lending agent marks to market the value of both the collateral and the reinvestments daily. Except for open loans where either party can terminate a lending contract on demand, term loans have a maximum life of 60 days. Earnings from securities lending accrue to the Pool and are allocated on a pro-rata basis to all Pool participants.

CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION TRUST FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013
(Continued)

3. CASH AND POOLED INVESTMENTS (Continued)

During the fiscal year 2013, collateralizations on all loaned securities were compliant with the required 102% of the market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the fiscal year. There was no credit risk exposure to the City because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.

4. DUE FROM OTHER GOVERNMENTAL AGENCY

The intergovernmental receivable amount represents the AB 2766 fourth quarter funds to be allocated for distribution by the SCAQMD to the City. This amount represents fees collected pursuant to AB 2766 by the DMV for the period April 1, 2013 through June 30, 2013.

5. DUE TO OTHER CITY FUNDS

Several program related projects were performed by other City departments that incurred program costs during the fiscal year. At June 30, 2013, the amount due to other City funds of \$360,525 consists primarily of reimbursements to the City's General Fund for program related costs incurred by the following City departments: Personnel, Public Works – Bureau of Engineers, and Transportation.

6. OTHER LIABILITIES

Other liabilities in the amount of \$31,322 represents the Fund's share of payable to brokers for investments traded on or before June 30, 2013, but not yet settled as of that date.

**CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION TRUST FUND
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON INFORMATION
For the Year Ended June 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>With</u>
			<u>(Budgetary</u>	<u>Final Budget</u>
			<u>Basis)</u>	<u>Positive</u>
				<u>(Negative)</u>
REVENUES				
Intergovernmental	\$ 4,667,069	\$ 4,667,069	\$ 4,586,081	\$ (80,988)
Interest	46,671	46,671	47,884	1,213
TOTAL REVENUES	<u>4,713,740</u>	<u>4,713,740</u>	<u>4,633,965</u>	<u>(79,775)</u>
EXPENDITURES AND OTHER FINANCING USES				
Expenditures - Health and Sanitation	3,435,472	5,456,159	3,002,122	2,454,037
Other Financing Uses - Transfers to Other Funds	2,038,567	1,894,147	1,689,535	204,612
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>5,474,039</u>	<u>7,350,306</u>	<u>4,691,657</u>	<u>2,658,649</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	(760,299)	(2,636,566)	(57,692)	2,578,874
FUND BALANCES, JULY 1, RESTATED	760,299	760,299	2,831,477	2,071,178
Appropriation of Fund Balances and Carryforward				
Appropriations	--	1,876,267	--	(1,876,267)
FUND BALANCES, JUNE 30	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 2,773,785</u>	<u>\$ 2,773,785</u>

See accompanying Note to Budgetary Comparison Information.

**CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION TRUST FUND
REQUIRED SUPPLEMENTAL INFORMATION
NOTE TO BUDGETARY COMPARISON INFORMATION
For the Year Ended June 30, 2013**

1. RECONCILIATION OF OPERATIONS FROM THE BUDGETARY BASIS TO THE GAAP BASIS

The accompanying Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund balance include all financial activities of the City's Program. Program operations include direct project activities of the Fund and project expenditures of AB 2766 monies incurred in the General Fund. However, in accordance with the City's budgetary accounting policies and procedures, the City adopts an annual operating budget for the Fund, which identifies expenditures, to be made from the Fund and other City funds. For purposes of budgetary reporting, Fund expenditures are reported when monies are transferred to other City funds rather than when the project expenditure is incurred in the receiving fund.

Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in accordance with GAAP, a reconciliation of the resultant perspectives, basis and timing differences for the fiscal year ended June 30, 2013 is presented as follows:

Deficiency of Revenues Over Expenditures (Non-GAAP Budgetary Basis)	\$ (57,692)
Basis Differences:	
Adjustments for Net Change in Fund balance to Accrued Assets and Liabilities	
Cash and Pooled Investment	(50,530)
Due from Other Governmental Agency	(1,208,286)
Due to the City	352,391
Investment Income Receivable	(11,135)
Accounts Payable	2,625
Deferred Revenue	4,208
Other Liabilities	31,322
Obligations Under Securities Lending Transaction	<u>11,759</u>
Subtotal	867,646
Adjustments for Encumbrances	<u>(534,466)</u>
Net Change in Fund Balance (GAAP Basis)	<u>\$ 275,488</u>



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRANARD C. SIMPSON, CPA
MELBA W. SIMPSON, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS OF MOBILE SOURCE AIR POLLUTION REDUCTION TRUST FUND
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Members of the City Council
City of Los Angeles, 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 Mobile Source Air Pollution Reduction Trust Fund (Fund) of the City of Los Angeles, California (City) as of and for the year ended June 30, 2013, and the related notes to the financial statements as listed in the table of contents, and have issued our report thereon dated January 24, 2014. Additionally, our audit was performed to determine compliance with the California Air Pollution Control Laws, Health and Safety Code Sections containing provisions of Assembly Bill 2766.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in Assembly Bill 2766, Chapter 1705 (Health and Safety Code Sections 44220 through 44247). 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance, which we have described in the accompanying Schedule of Finding and Recommendation.

Purpose of this Report

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of our testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read 'Simpson & Simpson'. The signature is written in a cursive, flowing style.

Los Angeles, California
January 24, 2014

**CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION TRUST FUND
SCHEDULE OF FINDING AND RECOMMENDATION
For the Year Ended June 30, 2013**

2013-1. Insufficient Detail on Timesheet for Direct Labor Charges

Criteria

Pursuant to Section 17. Direct Program Costs of *Implementation of AB2766 Subvention Fund Projects: A Resource Guide for Local Government Recipients of Motor Vehicle Registration Fee Revenues* published by SCAQMD, direct labor must be documented on time sheets. If time sheets do not permit the level of detail required to document direct labor hours to be charged to AB2766 projects specifically, then a detailed log of time spent on projects, the activities performed and the outcome or product generated must be maintained. Direct labor costs must identify the project to establish a clear audit trail. Allocating a fixed or budgeted amount of staff time and associated salary expense each pay period will not meet the requirements for the audit.

Condition

We noted that the time sheets of a City department did not document direct labor hours charged to AB2766 projects for direct program costs in the amount of \$30,045. There were insufficient detail to support the direct labor costs charged to the AB2766 projects.

Questioned Costs

\$30,045

Cause and Effect

The City department staff's timesheets were not documented with sufficient detail of time spent on different activities to support the direct labor costs charged to the program. As a result, these direct labor costs were not documented in compliance with the program guidance and are questioned. This is a repeat finding from prior year.

Recommendation

Staff who works for program activities should prepare and keep detailed records of time spent on different activities to support the direct program costs.

City's Response

The City department staff will implement the recommendation immediately and keep the detailed record of time spent on different activities to support direct program costs.

CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION TRUST FUND
STATUS OF PRIOR YEAR'S FINDING AND RECOMMENDATION
For the Year Ended June 30, 2013

2012-1. Insufficient Detail on Timesheet for Direct Labor Charges

Condition

We noted that salary costs in the amount of \$30,045 charged by a City department to the Fund were based on estimated percentage of salaries of staff who worked on the AB2766 projects. We also noted that the City department staff maintained time sheets for each pay period, however did not keep detailed record of time spent on different activities or programs to support the direct labor costs charged to the AB2766 projects.

Recommendation

Staff who works for program activities should prepare and keep detailed records of time spent on different activities to support the direct program costs.

Current Year Status

The planned corrective action has not been implemented. See current year finding 2013-1 on page 17.