



WENDY GREUEL
CONTROLLER

March 31, 2011

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

Dear Honorable Members:

**SUBJECT: AUDITED FINANCIAL STATEMENTS OF THE MOBILE SOURCE AIR
POLLUTION REDUCTION TRUST FUND**

The City's annual external audit is comprised of various audits of the City's financial operations. Simpson & Simpson, CPAs, a firm of independent certified public accountants, is under contract with the City to perform the audits and to file the resulting reports with the City Council.

Attached to this transmittal are four copies of the fiscal year 2009-10 Audited Financial Statements of the Mobile Source Air Pollution Reduction Trust Fund. The report is based on the results of an audit conducted by Simpson & Simpson, CPAs. This is one of the audit reports the City Council receives pursuant to the audit contract. Other audit reports, such as the financial statements for the Municipal Improvement Corporation of Los Angeles and the Cost Allocation Plan will be forwarded to the City Council as they are completed.

If you have any questions, please contact Sally Rocio of Financial Analysis and Reporting at (213) 978-7324.

Sincerely,

CLAIRE BARTELS
Chief Deputy Controller



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CERTIFIED PUBLIC ACCOUNTANTS

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March 31, 2011

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, 2010.

We performed a financial audit of the Fund's financial statements in accordance with auditing standards generally accepted in the United States of America. As indicated in our report dated February 9, 2011, we expressed an unqualified opinion on the financial statements indicating that they present fairly, in all material respects, the financial position and changes in financial position and budgetary comparison of the Fund in conformity with accounting principles generally accepted in the United States of America.

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

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

Sincerely,

Simpson and Simpson

Enclosures: 4

Cc: Matias Farfan – Controller's Office with 2 Enclosures
Detrich Allen – Department of Transportation with 15 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, 2010***

CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION TRUST FUND
TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	3
Balance Sheet	5
Statement of Revenues, Expenditures and Changes in Fund Balance	6
Notes to Financial Statements	7
Report on Compliance and Other Matters and on Internal Control over Financial Reporting Based on an Audit of the Financial Statements of Mobile Source Air Pollution Reduction Trust Fund Performed in Accordance with <i>Government Auditing Standards</i>	13
Schedule of Finding and Recommendation	15



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INDEPENDENT AUDITOR'S REPORT

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

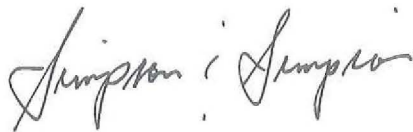
We have audited the accompanying balance sheet of the Mobile Source Air Pollution Reduction Trust Fund (Fund) of the City of Los Angeles, California (City) as of June 30, 2010, and the related statement of revenues, expenditures and changes in fund balance for the year then ended. These financial statements are the responsibility of the management of the City. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As stated in Note 1, the financial statements being presented are only for the Fund and do not purport to, and do not present fairly the financial position of the City as of June 30, 2010, and changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mobile Source Air Pollution Reduction Trust Fund of the City of Los Angeles as of June 30, 2010, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2011 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 matter. 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* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in dark ink, appearing to read 'Simpson & Simpson'.

Los Angeles, California
February 9, 2011

CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION TRUST FUND
BALANCE SHEET
June 30, 2010

ASSETS

Cash and Pooled Investments (Note 3)	\$ 4,265,336
Due from Other Governmental Agencies (Note 4)	1,236,246
Due from the City (Note 5)	19,673
Investment Income Receivable	<u>17,395</u>

Total Assets	<u><u>\$ 5,538,650</u></u>
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LIABILITIES AND FUND BALANCE

Liabilities:

Accounts Payable	\$ 288
Obligations Under Securities Lending	105,602
Deferred Revenue	<u>6,406</u>

Total Liabilities	<u>112,296</u>
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Fund Balance:

Reserved for Encumbrances	72,113
Unreserved and Undesignated	<u>5,354,241</u>

Total Fund Balance	<u>5,426,354</u>
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Total Liabilities and Fund Balance	<u><u>\$ 5,538,650</u></u>
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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, 2010

Revenues:

Motor Vehicle Registration Fees – Subvention Fund	\$ 4,603,359
Other Intergovernmental Grants	19,688
Investment Income	145,697
Other Income	<u>680</u>

Total Revenues	<u>4,769,424</u>
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Expenditures:

Direct Program	5,436,810
Administrative	<u>312,099</u>

Total Expenditures	<u>5,748,909</u>
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Net Change in Fund Balance	(979,485)
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Fund Balance, July 1, 2009	<u>6,405,839</u>
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Fund Balance, June 30, 2010	<u><u>\$ 5,426,354</u></u>
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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, 2010

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, 2010
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2010, cash and pooled investment of the Fund held by the City Treasurer were \$4,265,336. The Fund’s participation in the City’s general and special investment pools was approximately 0.06%. 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.

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.

CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION TRUST FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

3. CASH AND POOLED INVESTMENTS (Continued)

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. 09-3050 was adopted on January 27, 2010 as the City's investment policy for calendar year 2010. 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 City's pooled investment policy are obligations of the U.S. Treasury and government agencies, commercial paper notes, negotiable certificates of deposits, guaranteed investment contracts, banker's acceptances, medium term corporate notes, money market accounts, and the State of California Local Agency Investment Fund.

At June 30, 2010 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
U.S. Treasury Notes	\$ 1,977,346,178	\$ --	\$ --	\$ --	\$ 1,977,346,178
U.S. Treasury Bills	1,002,601,021	474,965,110	288,830,796	238,805,115	--
U.S. Sponsored Agency Issues	2,830,258,145	474,135,166	590,834,365	693,594,658	1,071,693,956
Medium Term Notes	735,132,619	--	--	20,035,597	715,097,022
Commercial Paper	594,181,450	322,518,881	117,917,754	153,744,815	--
Certificates of Deposit	9,000,000	--	--	9,000,000	--
Short Term Investment Funds	41,769,511	41,769,511	--	--	--
Securities Lending Cash Collateral					
U.S. Treasury Notes	54,031,250	--	--	--	54,031,250
U.S. Sponsored Agency Issues	111,067,500	--	--	--	111,067,500
Total General and Special Pools	\$ 7,355,387,674	\$ 1,313,388,668	\$ 997,582,915	\$ 1,115,180,185	\$ 3,929,235,906

Interest Rate Risk. The City's pooled investment policy limits the maturity of its investments to a maximum of five (5) years for the U.S. Treasury and government agency securities, medium term notes, CD placement service, 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.

CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION TRUST FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

3. CASH AND POOLED INVESTMENTS (Continued)

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 in the Policy. The City's \$2.8 billion investments in U.S. government sponsored enterprises consist of securities issued by the Federal Home Loan Bank - \$887.3 million, Federal National Mortgage Association - \$763.7 million, Federal Home Loan Mortgage Corporation - \$476.2 million, Federal Farm Credit Bank - \$164.1 million, Tennessee Valley Authority - \$38.5 million, and Freddie Mac - \$500.5 million. Of the City's \$2.8 billion investments in U.S. Sponsored Agencies securities, \$1,041.8 million are rated "AAA" by S&P and "Aaa" by Moody's; \$1,788.5 million are not rated by the National Recognized Statistical Rating Organizations (NRSRO), but have an implied highest rating in the market.

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 \$735.1 million 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.

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. The City's \$594.2 million investments in commercial paper comply with these requirements and were rated A-1+/A-1 by S&P and P-1 by Moody's.

The issuers of the certificates of deposit were not rated.

CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION TRUST FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(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 and 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, 2010, \$887.3 million (12%) was invested in securities issued by the Federal Home Loan Bank, \$476.2 million (6%) was invested in securities issued by Federal Home Loan Mortgage Corporation, \$763.7 million (10%) was invested in securities issued by Federal National Mortgage Association, and \$500.5 million (7%) was invested in securities issued by Freddie Mac.

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.

CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION TRUST FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

3. CASH AND POOLED INVESTMENTS (Continued)

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 accordance with the California Government Code, the securities lending agent marks to market daily 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 92 days. Earnings from securities lending accrue to the Pool and are allocated on a pro-rata basis to all Pool participants.

The City's SLP which was temporarily suspended in November 2008 due to the extreme volatility in the financial markets was resumed on April 22, 2010. At June 30, 2010, the assets and liabilities arising from the reinvested cash collateral were recognized in the respective participants' financial statements. During the fiscal year 2010, 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 AGENCIES

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, 2010 through June 30, 2010.

5. DUE FROM THE CITY

The "Due from the City" in the amount of \$19,673 consists of \$13,316 due from the General Fund, and \$6,357 due from Bureau of Sanitation.



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**REPORT ON COMPLIANCE AND OTHER MATTERS
AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING 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 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, 2010 and have issued our report thereon dated February 9, 2011. 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. 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.

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.

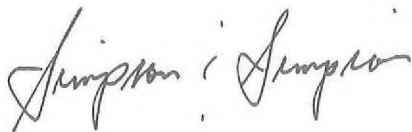
Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the City Council, City management and the South Coast Air Quality Management District and is not intended to be and should not be used by anyone other than these specified parties.



Los Angeles, California
February 9, 2011

CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION TRUST FUND
SCHEDULE OF FINDING AND RECOMMENDATION
For the Year Ended June 30, 2010

1. Administrative Costs Exceeded 5% Cap

Finding

According to the California Health and Safety Code Section 44233, no more than 5% of the fees subvented shall be used for administrative costs. For the fiscal year ended June 30, 2010, the City's administrative costs exceeded the 5% cap by \$81,931.

Recommendation

The City should ensure that the administrative costs are within 5% of AB 2766 fees distributed.

City's Response

Concur. The City agrees that charges for administrative costs for FY 2009/10 for the AB 2766 Program exceed the allowable limit of 5%. The City requests that \$81,931 be withheld from future Program disbursements to the City. In the future, the City will ensure that the administrative costs are kept within 5% of AB 2766 fees.