

Single Audit Report
City of El Monte, California
Year ended June 30, 2011
with Report of Independent Auditors

	<u>PAGE</u>
REPORTS OF INDEPENDENT AUDITORS	
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	1
Report of Independent Auditors on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program, on Internal Control Over Compliance and on the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133	3
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	6
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	7
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	9
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS	42

**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***

**The Honorable Mayor and Members of City Council
City of El Monte**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of El Monte, California, as of and for the year ended June 30, 2011, and have issued our report thereon dated March 31, 2012. 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.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of El Monte's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of El Monte's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of El Monte'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 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. However, we identified certain deficiencies in internal control over financial reporting as described in the accompanying schedule of findings and questioned costs as items FS 11-01 to FS 11-05 that we consider to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of El Monte'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. 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, described as Finding FS 11-05 in the accompanying schedule of findings and questioned costs, that is required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the City of El Monte in a separate letter dated March 31, 2012.

The City of El Monte's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of El Monte's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the City Council, management, federal and state awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Vargay + Company LLP

Los Angeles, California
March 31, 2012

Report of Independent Auditors on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program, on Internal Control over Compliance, and on the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133

**The Honorable Mayor and Members of City Council
City of El Monte**

Compliance

We have audited the compliance of the City of El Monte, California with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2011. The City of El Monte's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of El Monte's management. Our responsibility is to express an opinion on the City of El Monte's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of El Monte's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of El Monte's compliance with those requirements.

As described in findings F11-01 and F11-02 in the accompanying schedule of findings and questioned costs, the City of El Monte did not comply with requirements regarding Allowable Costs/Cost Principles that are applicable to its Community Development Block Grant program. Furthermore, as described in finding F11-17, the City of El Monte did not comply with the requirements regarding Allowable Costs/Cost Principles that are applicable to its Federal Asset Forfeiture program. Compliance with such requirements is necessary, in our opinion, for the City of El Monte to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of El Monte complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and are described in the accompanying schedule of findings and questioned costs as F11-03 to F11-16 and F11-18 to F11-21.

Internal Control Over Compliance

The management of the City of El Monte is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of El Monte's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of El Monte's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings F11-01 to F11-02 and F11-17 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings F11-03, F11-05 to F11-07, F11-15 and F11-19 to be significant deficiencies.

City of El Monte's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit City of El Monte's responses and, accordingly, we express no opinion on the responses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of El Monte as of and for the year ended June 30, 2011, and have issued our report thereon dated March 31, 2012, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, the accompanying information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management, federal and state awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Vargus + Company LLP

Los Angeles, California
March 31, 2012

City of El Monte
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Award Expenditures</u>
U.S. Department of Agriculture			
Passed through the State of California,			
Department of Education:			
Summer Food Service Program for Children	10.559	8190-5V	\$ <u>266,332</u>
Total U.S. Department of Agriculture			<u>266,332</u>
U.S. Department of Housing and Urban Development			
Direct Assistance:			
Community Development Block Grant Program			
Entitlement Grant	14.218	B-09-MC-06-0517 B-10-MC-06-0517	2,897,241 *
Community Development Block Grant ARRA Entitlement			
Grants (Recovery Act Funded)	14.253	B-09-MY-06-0517	303,643 *
Section 108 Guaranteed Loan	14.248	Various	52,494
Home Investment Partnership Program (Home)	14.239	M-10-MC-06-0509	848,435
Emergency Shelter Grant	14.231	S-10-MC-06-0517	77,198
Homelessness Prevention and Rapid Re-housing Program (HPRP)	14.257	S-09-MY-06-0517	566,832 *
Passed through City of Baldwin Park:			
Neighborhood Stabilization Program (NSP)	14.228	09-NSP1-6254	<u>111,071</u>
Total U.S. Department of Housing and Urban Development			<u>4,856,914</u>
U.S. Department of Justice			
Direct Assistance			
Federal Asset Forfeiture Program	16.000		661,174 *
COPS Hiring Recovery Program	16.710	2009RKWX0117	760,749 *
Passed through City of Los Angeles			
Edward Byrne Memorial Justice Assistance Grant (ARRA)	16.804	C-118751	<u>183,142</u> *
Total U.S. Department of Justice			<u>1,605,065</u>
U.S. Department of Transportation			
Passed through State of California,			
Office of Traffic Safety:			
State and Community Highway Safety			
Sobriety Checkpoint Program	20.600	SC10125	34,968
Sobriety Checkpoint	20.600	SC11125	63,203
OTS DUI Enforcement	20.600	AL1176	<u>163,908</u>
			<u>262,079</u>
Passed through State of California Department of			
Transportation			
Highway Planning and Construction - Sidewalk Repair and			
Installation	20.205	ESPLE-5210(016)	1,192,670 *
Highway Planning and Construction - Road Rehabilitation			
and Reconstruction	20.205	ESPL-5210(018)	<u>3,217,000</u> *
			<u>4,409,670</u>
Total U.S. Department of Transportation			<u>4,671,749</u>
U.S. Department of Energy			
Energy Efficiency Conservation Block Grant (EECBG)	81.128	DE-SC0003086	<u>345,510</u> *
Total U.S. Department of Energy			<u>345,510</u>
U.S. Department of Health and Human Services			
Passed through the County of Los Angeles,			
Department of Community and Senior Services:			
Special Programs for Aging, Title III Older American Act			
Nutrition Services	93.045	AAA-ENP1-0809-007	121,385
Older American Act IIIB - ICM - Linkages AB764	93.044	40123	5,663
Older American Act IIIB - ICM Supportive Services IIIB	93.044	SSP-1014-09	<u>55,380</u>
			<u>61,043</u>
National Family Caregiver Support, Title IIIE	93.052	FCSP-0913-005	<u>7,647</u>
Total U.S. Department of Health and Human Services			<u>190,075</u>
U.S. Department of Homeland Security			
Passed through the County of Los Angeles:			
Homeland Security Grant Program	97.068	2006-0071	<u>361,660</u>
Total U.S. Department of Homeland Security			<u>361,660</u>
Total Expenditures of Federal Awards			\$ <u>12,297,305</u>

* Major Programs

See accompanying notes to Schedule of Expenditures of Federal Awards.

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the City of El Monte (City) that are reimbursable under programs of federal and selected state agencies providing financial awards. For purposes of this schedule, financial awards include federal awards received directly from a federal agency, federal funds received indirectly by the City from a nonfederal agency or other organization. Only the portion of program expenditures reimbursable with such federal and selected state funds is reported in the accompanying schedule. Program expenditures in excess of the maximum reimbursement authorized or the portion of the program expenditures that were funded with other state, local or other nonfederal funds are excluded from the accompanying schedule.

Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal programs.

Schedule of Expenditures of Federal Awards

The Schedule of Expenditures of Federal Awards presented herein is prepared only from the accounts of the grant programs and, therefore, does not present the financial position or results of operations of the City of El Monte, California. The City's reporting entity is defined in Note 1 to the City's financial statements.

Relationship to Financial Statements

In accordance with the governmental Accounting Standards Board's Statement No. 39 "Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14," activities relating to all federal financial assistance programs are blended in the City's financial statements as special revenue funds.

Relationship to Federal Financial Reports

Grant expenditure reports as of June 30, 2011, which have been submitted to grantor agencies, will, in some cases, differ from amounts disclosed herein. The reports for grantor agencies are typically prepared at a later date and often reflect refined estimates of the year-end accruals.

NOTE 2 MAJOR PROGRAMS

The following Catalog of Federal Domestic Assistance (CFDA) programs were tested as major programs:

Community Development Block Grant	CFDA #14.218
Community Development Block Grant ARRA Entitlement Grants (Recovery Act Funded)	CFDA #14.253
Homelessness Prevention and Rapid Re-housing Program (HPRP) (Recovery Act Funded)	CFDA #14.257
Federal Asset Forfeiture Grant	CFDA #16.000
Public Safety Partnership and Community Policing Grants - COPS Hiring Recovery Program Grant	CFDA #16.710
Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government – (Recovery Act Fund)	CFDA #16.804
Highway Planning and Construction (Federal-Aid Highway Program)	CFDA #20.205
Energy Efficiency and Conservation Block Grant	CFDA #81.128

NOTE 3 PAYMENTS TO SUBRECIPIENTS

Subrecipient grants provided during the year are as follows:

Community Development Block Grant - Entitlement Grants	\$ 15,000
Home Investment Partnership Program (HOME)	50,000
Homelessness Prevention and Rapid Re-Housing Program (HPRP)	455,018
Emergency Shelter Grant	77,101
Total	\$ <u>597,119</u>

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued on the financial statements: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified: No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes

Noncompliance material to the financial statements noted: Yes

Federal Awards

Internal control over its major programs:

- Material weakness(es) identified: Yes
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes

Type of auditors’ report issued on compliance for major programs: Qualified for Community Development Block Grant and Federal Asset Forfeiture Grant
 Unqualified for all the remaining major programs

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133? Yes – F11-01 to F11-21

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.253	Community Development Block Grant ARRA Entitlement Grants (Recovery Act Funded)
14.218	Community Development Block Grant
14.257	Homelessness Prevention and Rapid Re-housing Program (HPRP) (Recovery Act Funded)
16.710	Public Safety Partnership and Community Policing Grants - COPS Hiring Recovery Program Grant
20.205	Highway Planning and Construction (Federal-Aid Highway Program)
81.128	Energy Efficiency and Conservation Block Grant
16.804	Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government
16.000	Federal Asset Forfeiture Grant

Dollar threshold used to distinguish between
Type A and Type B programs: \$368,507

Auditee qualified as a low-risk auditee: No

Section II – Financial Statement Findings

FS 11-01: Year-end Closing Process

Condition and Context

This year's closing process was delayed because some important procedures were not performed on time. These include:

- Accounts and notes receivables were not updated and reconciled with the general ledger in a timely manner.
- Capital assets registers were not updated and reconciled with the general ledger in a timely manner.
- Cut off procedures. Cut off procedures relating to year-end accruals were inadequate to ensure the recording of transactions in the proper period.

Cause and Effect

Although the City hired a Finance Director and new accounting staff and realized considerable progress in correcting and improving accounting processes, certain deficiencies remain to be corrected.

Recommendation

We recommend that the City of El Monte establish and document proper closing and reconciliation procedures and assign responsibility for completing the procedures to specific City personnel. The closing procedures should be documented in a checklist that indicates who will perform each procedure and when completion of each procedure is due and is accomplished. The timing of specific procedures could be coordinated with the timing of management's need for the information and prior to the commencement of year-end audit fieldwork. These reconciliations will provide assurance that financial statements are meaningful and accurate.

We also recommend that the City hire a competent Controller or Accounting Manager who will be responsible for ensuring that key internal control processes are implemented including timely update of subsidiary records and reconciliation of account balances, proper recording of transactions, and timely closing of the books.

Management Response

The City is taking an active position in addressing a number of the findings listed in the report. Like many municipalities, the City is faced with ever increasing budgetary pressures, which have led to a reduction in both staff and resources.

The City is taking steps toward addressing the major audit findings: year-end closing, accrual of liabilities, accrual of receivables, policies and procedures, and formal budget approval for certain special revenue funds. The Finance Department has written a number of formal accounting policies, updated procedures, and will reallocate responsibilities and assignments to new or reallocated personnel, which should enable the City to adequately address these major findings in the future.

A number of findings are centered around delays in reporting and administrative/compliance oversights. Although these issues arise in part due to diminished staff and resources, they will be discussed with both the City Council and senior management to ensure that additional staff resources are focused on grant administration and compliance in the future.

FS 11-02: Unrecorded Liabilities

Condition and Context

During our search for unrecorded liabilities, we noted 12 invoices amounting to \$348,314 which related to fiscal year 2010-2011 but were not properly recognized as a liability in the prior fiscal year. These invoices were paid in fiscal year 2011-2012 but were overlooked by management when analyzing the 2010-2011 year-end accruals. These items were brought to management's attention and subsequently corrected.

Cause and Effect

Accrual of liabilities after August 31st is prepared by the accountant through a Journal Entry based on copies of invoices forwarded by the Accounts Payable Clerk. A review of accruals was not performed to ensure correctness and completeness of transactions being accrued. Absence of the review process and failure by the Accounts Payable clerk to forward such invoices resulted in nonaccrual of the liability.

Recommendation

We suggest management perform a thorough review of all subsequent disbursements for potential accrual, and provide further training to the Accounts Payable clerk in the accounting for and processing of year-end transactions.

Management Response

See Response on FS11-01

FS 11-03: Receivables

Condition and Context

During our review of the grant activity, we noted that grants revenues and receivables had not been properly reconciled. We also noted that the City of El Monte was not submitting grant reimbursement requests in a timely manner. Furthermore, the City had not submitted reimbursements for some grants for which expenditures had been incurred as of fiscal year end.

Cause and Effect

The accounting personnel and support are not sufficient to ensure that receivables are monitored and reviewed properly and timely. In addition, due to recent staff reductions within the City, some of the departments appear to have insufficient staff to monitor reimbursement requests and collections. Failure to request reimbursements from grantors is causing the City to have unnecessarily high balances of grant receivable and deferred revenue which negatively impacts the City's cash position.

Recommendation

We recommend that management perform a thorough review of all subsequent receipts during year-end accounts receivable accrual analyses. Also, the City should review its procedures to ensure that all grants are properly reconciled after year end, and grant receivables and deferred revenue are properly established in the accounting records. In addition, grant-funded expenditures should be monitored at least monthly to identify reimbursable costs. The related grant reimbursement requests should be submitted on a timely basis, monthly or at least quarterly. Departments charged with monitoring of the grants should communicate and coordinate with Finance Department personnel to ensure that reimbursement requests are submitted timely and that the City is collecting the money that is due.

Management Response

See Response on FS11-01

FS 11-04: Capital Assets

Condition and Context

It was noted that the City has no formal policies and procedures on updating and safeguarding capital assets, which include conducting periodic physical inventory counts, tagging of capital assets items, updating capital assets registers on a timely basis, and reconciling capital assets registers with the balance per general ledger.

Cause and Effect

The City of El Monte does not have a formal procedure to ensure that disposals of fixed assets are reported to the Finance Department as they occur. Without such a procedure, it is possible that disposals are not being recorded. Furthermore, the absence of physical inventory counts of assets may result in the overstatement of the recorded capital assets.

Recommendation

Detailed property records are an important management tool in maintaining control over capital assets. The detailed records should be updated each time a piece of equipment is purchased, sold, or discarded. A fixed asset control system is invaluable in analyzing replacement needs, insurance coverage, inventorying of assets, and reducing the risk of losing assets.

We also recommend that the City adopt a formal policy to ensure the proper reporting of capital asset disposals. The policy should include the necessary level of approval for the disposal. This information should be reported to the Finance Department on a timely basis so that accounting records can be properly updated. A simple standardized form could be developed to provide adequate accounting documentation and to provide evidence of adherence to the City of El Monte's policy.

In addition, a physical inventory count of capital assets will provide the City with an accurate inventory of capital assets. In connection with this inventory, tags should be placed on each asset with numbers that are recorded in the detail property records. This will help improve the tracking of assets for disposal and impairment purposes. The resulting capital asset listing also will provide a strong source of detail and control to establish future system of safeguards for capital assets. Capital asset inventories and listings are also required by Federal grantors who finance capital assets.

Management Response

See Response on FS11-01

FS 11-05: Budgets and Appropriations

Criteria

As required by the provisions of the City's Municipal Code, "the City shall adopt a balanced budget by the affirmative votes of at least three (3) members. Upon final adoption, the budget shall be in effect for the ensuing budget period and funds shall be appropriated for the fiscal year. From the effective date of the appropriation, the several amounts stated therein as proposed expenditures shall be and become appropriated to the several groups, offices and agencies for the respective objects and purposes therein named." This appropriation provides the authority for the City's spending during the fiscal year. In most cases, expenditures may not exceed appropriations at the department level, which is the legal level of control.

Condition

We noted that for the fiscal year ended June 30, 2011, an annual budget was not adopted for some of the special revenue funds of the City. Moreover, there were expenditures that exceeded appropriations at the department level as disclosed in the notes to financial statements.

This constitutes noncompliance with the Municipal Code and is considered a significant deficiency in the City's internal controls.

Recommendation

We recommend that the City comply with the requirement of the Code and ensure that an annual budget is adopted for all the funds of the City. Further, control procedures should be implemented to ensure adherence to the approved budget.

Management Response

See Response on FS11-01

Section III – Federal Award Findings

Finding F11-01 – Allowable Costs/Cost Principles

Federal Program Information

<i>Federal Catalog Number:</i>	14.218 and 14.253
<i>Federal Program Name:</i>	Community Development Block Grants/Entitlement Grants and Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number and Award Year:</i>	B-09-MC-06-0517 - FY 09-10 B-10-MC-06-0517 - FY 10-11 B-09-MY-06-0517 - FY 09-10

Criteria or Requirement

Per Title 2 – Grants and Agreements Part 225, Cost Principle for State, Local, and Indian Tribal governments (OMB Circular A-87), factors affecting allowability of costs. To be allowable under Federal awards, cost must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- b. Be allocable to Federal awards under the provision of 2 CFR part 225.
- c. Be authorized or not prohibited under State or local laws or regulations.
- d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- g. Except as otherwise provided for in 2 CFR part 225, be determined in accordance with generally accepted accounting principles.
- h. Not be included as a cost or used to meet costs sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.
- i. Be the net of all applicable credits.
- j. Be adequately documented.

Condition Found

During our audit we noted that 4 disbursements out of 25 disbursements sampled lacked proper documentation as follows:

- 3 disbursements charged to the Community Development Block Grant (CDBG) programs had supporting documentations that included expenditures for programs other than CDBG and CDBG-ARRA.

- 1 disbursement did not have any proper support or documentation to indicate that the expenditures were for CDBG or CDBG-ARRA.

Questioned Costs

\$94,532 of \$1,742,725 sampled

Possible Asserted Cause and Effect

The City did not require an adequate review of documentation underlying charges to federal awards as would be appropriate to ensure the propriety of all charges to such awards. Per review of invoices performed by a vendor, there is no clear indication or evidence that the services performed were directly related to the objectives and implementation of CDBG and CDBG-ARRA programs. In addition, we noted expenditure items that were charged to the program as a result of a reclassification made from another program and the City of El Monte was not able to provide evidence that such expenditure was for the program. Lastly, for expenditures shared by various programs, the City was not able to provide a clear and reasonable basis for the amount allocated to the program. Without proper documentation, these expenditures may be considered unallowable costs.

Recommendation

We recommend that the City of El Monte implement stricter controls to ensure compliance with the federal program requirements of allowable/unallowable expenditures. Expenditures should be documented and basis of allocation for shared program costs should be reasonable and properly documented.

Views of Responsible Officials and Planned Corrective Action

See Response on FS11-01

Finding F11-02 – Allowable Costs/Cost Principles

Federal Program Information

<i>Federal Catalog Number:</i>	14.218
<i>Federal Program Name:</i>	Community Development Block Grants/Entitlement Grants
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number and Award Year:</i>	B-10-MC-06-0517 – FY 10-11

Criteria or Specific Requirement

Per 2 CFR Part 225 Appendix B 8h – Support of salaries and wages, the standards regarding time distribution in addition to the standards for payroll distribution are as follows:

1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

(2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed by the employee.
- (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
 - (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;

(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

(iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Condition Found

During our review of payroll charged to the CDBG program, we noted that 14 out of 15 employees' sampled did not have documentation of the actual time and effort the employees expended on the program. The timesheets that were provided reported the hours worked by the employee during the period but did not include the distribution of hours spent for each activity the employee was involved in. In addition, the City used the budgeted fixed salary allocation percentages in distributing salaries of various employees to the program. However, there was no documentation that comparison of actual costs to budgeted distribution based on the monthly activity reports was made.

Possible Asserted Cause and Effect

The City did not have adequate monitoring controls in place to ensure proper documentation of employees' actual time and effort to support salaries and related benefits charged to the program. The absence of supporting documentation makes salaries charged to the program unallowable costs.

Questioned Costs

\$17,552 of \$17,737 sampled

Recommendation

We recommend that the City of El Monte implement stricter controls to ensure compliance with the federal program requirements of allowable/unallowable expenditures. Actual time and effort that employees put to the grant should be properly documented to support salaries charged to the program.

Views of Responsible Officials and Planned Corrective Action

See Response on FS11-01

Finding F11-03 – Program Income

Federal Program Information

<i>Federal Catalog Number:</i>	14.218
<i>Federal Program Name:</i>	Community Development Block Grants/Entitlement Grants
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number and Award Year:</i>	B-09-MC-06-0517 – FY 09-10 B-10-MC-06-0517 – FY 10-11

Criteria or Specific Requirement

Per OMB A-133, the grantee must accurately account for any program income generated from the use of CDBG funds or ARRA funds, and must treat such income as additional CDBG funds which are subject to all program rules.

Condition Found

During our review of the CDBG program income, we noted that program income of \$2,337 was not reported in IDIS 2010-2011 PR09 Report.

Possible Asserted Cause and Effect

The City did not have adequate monitoring controls in place to ensure the accurate and timely reporting of program income to HUD. This failure to report program income constitutes noncompliance with the grant terms and condition which may be grounds for sanctions.

Questioned Costs

Not applicable

Recommendation

The City should review its current procedures over reporting of program income to ensure timely and accurate reporting.

Views of Responsible Officials and Planned Corrective Action

See Response on FS11-01

Finding F11-04 – Reporting

Federal Program Information

<i>Federal Catalog Number:</i>	14.218 and 14.253
<i>Federal Program Name:</i>	Community Development Block Grant/Entitlement Grants and Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number and Award Year:</i>	B-09-MC-06-0517 – FY 09-10 B-10-MC-06-0517 – FY 10-11 B-09-MY-06-0517

Criteria or Specific Requirement

Per OMB Circular A-133, recipients of CDBG are required to comply with reporting requirements. Quarterly federal financial reports (SF-425) are due on or before the 30th of the month following the end of each quarter. In addition, for each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime recipient must submit Form HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons (24CFR sections 135.3(a), 135.90, and 570.607). Furthermore, CDBG-R grantees are required to submit Section 1512 ARRA reports on or before the 10th of the month following the end of each quarter.

Title 24 – Housing and Urban Development, Subtitle A, Part 91.-Consolidated Submission for Community Planning and Development Programs, Section 91.15 (a) General. (1) In order to facilitate continuity in its program and to provide accountability to citizens, each jurisdiction should submit its consolidated plan to HUD at least 45 days before the start of its program year.

Condition

During our audit, we noted that the following reports were submitted late during the year.

- Federal Financial Report (SF-425) covering Quarter 2 (October 1, 2010 to December 31, 2010) was submitted on May 9, 2011.
- Federal Financial Report (SF-425) covering Quarter 3 (January 1, 2011 to March 31, 2011) was submitted on May 10, 2011.
- The City did not provide any documentation of HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons and the proof of its submission.
- ARRA Section 1512 Report covering Quarter 2 (October 1, 2010 to December 31, 2011) was not submitted.
- The fiscal year 2010-2011 Annual Action Plan was submitted late. The City submitted the Annual Action Plan on June 10, 2010 after the plan's due date of May 15, 2010.

Possible Asserted Cause and Effect

Monitoring controls are not in place to ensure that required reports are submitted timely. These untimely reports constitute noncompliance with the grant terms and condition which may be grounds for sanctions.

Questioned Costs

Not applicable

Recommendation

The City should review its current procedures over financial and program reporting to ensure timely submission of the required reports.

Views of Responsible Officials and Planned Corrective Action

See Response on FS11-01

Finding F11-05 – Subrecipient Monitoring

Federal Program Information

<i>Federal Catalog Number:</i>	14.218
<i>Federal Program Name:</i>	Community Development Block Grant/Entitlement Grants
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number and Award Year:</i>	B-09-MC-06-0517 - FY 09 -10 B-10-MC-06-0517 - FY 10-11

Criteria or Specific Requirement

Per OMB Circular A-133, recipients of CDBG who passed through funds to a subrecipient are required to monitor the subrecipient's use of Federal awards through reporting, site visits, regular contact or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition

During our audit, no evidence was provided that monitoring was done for its CDBG subrecipient.

Possible Asserted Cause and Effect

Monitoring controls are not in place to ensure that monitoring or site visits of subrecipient are performed at least once a year. Failure to monitor subrecipients constitutes noncompliance with federal requirements which may be grounds for sanctions.

Questioned Costs

Not applicable

Recommendation

The City should review its current procedures over monitoring subrecipients to ensure that it is done periodically and provides reasonable assurance that subrecipients used Federal awards for authorized purposes, complied with laws, regulations, and the provisions of contracts and grant agreements, and achieved performance goals.

Views of Responsible Officials and Planned Corrective Action

See Response on FS11-01

Finding F11-06 – Internal Controls Over Activities Allowed & Allowable Costs

Federal Program Information

<i>Federal Catalog Number:</i>	14.257
<i>Federal Program Name:</i>	Homelessness Prevention and Rapid Re-Housing Program (ARRA)
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number:</i>	S09-MY-06-0517

Criteria or Specific Requirement

Rental assistance payments cannot be made on behalf of eligible individuals or families for the same period of time and for the same cost types that are being provided through another federal, state or local housing subsidy program.

Condition

During our audit, we have tested the City's internal controls that are in place to ensure compliance with the above requirements relative to rental assistance payments. We tested a total of 10 participants and noted that all clients selected for review did not include any documentation that the City, before providing rental assistance, verified whether participants are receiving the same cost type (rent payments, utility assistance, moving costs, utility deposits, rental arrears) through another federal, state, or local subsidy program nor were receiving rental assistance under another program (either full or partial subsidy) during the time that HPRP funds are used for rental assistance during that same time period.

Effect

Lack of controls might result in noncompliance with the federal requirements of the HPRP Program and may further lead to ineligible costs.

Questioned Costs

Not applicable

Recommendation

We recommend that the City implement stricter controls and procedures to ensure that rent verification is done prior to the provision of rental assistance to participants.

Views of Responsible Officials and Planned Corrective Action

See Response on FS11-01

Finding F11-07 – Cash Management

Federal Program Information

<i>Federal Catalog Number:</i>	14.257
<i>Federal Program Name:</i>	Homelessness Prevention and Rapid Re-Housing Program (ARRA)
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number:</i>	S09-MY-06-0517

Criteria or Requirement

When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government.

Condition Found

During our testing of the City's compliance with cash management requirements, we noted that 1 out of 25 expenditures tested was included in the request for reimbursement from HUD through IDIS before the expenditure was incurred or paid. The City allowed its subrecipient to obtain advances. Such advances should not be included in the City's request for reimbursement from HUD. However, in its April 8, 2011 drawdown, the City includes advances amounting to \$14,120 that were not yet spent by the subrecipient.

Possible Asserted Cause and Effect

Monitoring controls are not in place to ensure that program costs are incurred and paid for by entity funds before reimbursement is requested from the grantor. The inclusion of such costs from the reimbursement request constitutes noncompliance with the federal requirements that may be grounds for sanction.

Questioned costs

\$14,120 of the \$288,997 sampled

Recommendation

We recommend that the City of El Monte implement stricter controls to ensure compliance with the federal program cash management requirements. Program costs should be incurred and paid prior to requesting reimbursement from the grantor.

Views of Responsible Officials and Planned Corrective Actions

See Response on FS11-01

Finding F11-08 – Reporting

Federal Program Information

<i>Federal Catalog Number:</i>	14.257
<i>Federal Program Name:</i>	Homelessness Prevention and Rapid Re-Housing Program (HPRP) (ARRA)
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number:</i>	S09-MY-06-0517

Criteria or Specific Requirement

Per OMB Circular A-133, recipients of HPRP are required to comply with reporting requirements. HPRP grantees are required to submit Section 1512 ARRA reports on or before the 10th of the month following the end of each quarter. In addition, grantees will use the Integrated Disbursement and Information System (IDIS) to draw down HPRP funding and report grant expenditures. One of the key line items for IDIS reporting is C04PR19 – HPRP Statistics for Projects as of Grant Year.

Per HUD Notice of Allocations, Application Procedures, and Requirements for Homelessness Prevention and Rapid Re-Housing Program Grantees under the American Recovery and Reinvestment Act of 2009, grantees must submit a Quarterly Performance Report within 10 days of the end of each quarter for the period of program operation, and will include current quarter and cumulative data.

Condition

During our audit, we noted that the following reports were submitted late during the year.

- ARRA Section 1512 Report Quarter 4 (April 1, 2011 to June 30, 2011) was submitted on July 14, 2011.
- The City did not have any documentation of IDIS Report C04PR 19 – HPRP Statistics for Projects as of Grant Year.
- E-snaps Quarterly Performance Report Quarter 2 (October 1, 2010 to December 31, 2010) was submitted on January 13, 2011.
- E-snaps Quarterly Performance Report Quarter 3 (January 1, 2011 to March 31, 2011) was submitted on April 14, 2011.
- E-snaps Quarterly Performance Report Quarter 4 (April 1, 2011 to June 30, 2011) was submitted on April 14, 2011.

Possible Asserted Cause and Effect

Monitoring controls are not in place to ensure that required reports are submitted timely. These untimely reports constitute noncompliance with the grant terms and condition which may be grounds for sanctions.

Questioned Costs

Not applicable

Recommendation

The City should review its current procedures over financial and program reporting to ensure timely submission of the required reports.

Views of Responsible Officials and Planned Corrective Action

See Response on FS11-01

Finding F11-09 – Internal Control Over Reporting

Federal Program Information

<i>Federal Catalog Number:</i>	14.257
<i>Federal Program Name:</i>	Homelessness Prevention and Rapid Re-Housing Program (HPRP) (ARRA)
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number:</i>	S09-MY-06-0517

Criteria or Specific Requirement

Per HUD Notice of Allocations, Application Procedures, and Requirements for Homelessness Prevention and Rapid Re-Housing Program Grantees under the American Recovery and Reinvestment Act of 2009, grantees must submit a Quarterly Performance Report within 10 days of the end of each quarter for the period of program operation, and will include current quarter and cumulative data.

Condition

During our audit, we noted that the E-snaps Quarterly Performance Reports submitted did not reflect the actual expenditures incurred by the City related to the HPRP Program.

Possible Asserted Cause and Effect

Monitoring controls are not in place to ensure that reports submitted to the grantor are accurate. Reporting incorrect information to the grantor may provide grantors with inaccurate program costs incurred by the grantee.

Questioned Costs

Not applicable

Recommendation

The City should review its current procedures over financial and program reporting to ensure that reports submitted are accurate.

Views of Responsible Officials and Planned Corrective Action

See Response on FS11-01

Finding F11-10 – Special Test and Provisions

Federal Program Information

<i>Federal Catalog Number:</i>	14.257
<i>Federal Program Name:</i>	Homelessness Prevention and Rapid Re-Housing Program (HPRP) (ARRA)
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number:</i>	S09-MY-06-0517

Criteria or Requirement

Per Notice of Allocations, Application Procedures, and Requirements for Homelessness Prevention and Rapid Re-Housing Program Grantees under the American Recovery and Reinvestment Act of 2009 issued by the Department of Housing and Urban Development, in terminating assistance to a program participant, the grantee must provide a formal process that recognizes the rights of individuals receiving assistance to due process of law. This process, at a minimum, consists of:

- (1) Written notice to the program participant containing a clear statement of the reasons for termination;
- (2) A review of the decision, in which the program participant is given the opportunity to present written or oral objections before a person other than the person (or a subordinate of that person) who made or approved the termination decision; and
- (3) Prompt written notice of the final decision to the program participant.

Condition Found

The City of El Monte Community Services Department HPRP program did not have a formal termination process until few months ago. According to the Community Wellness and Senior Services Coordinator in-charge of HPRP, no participants were terminated since the Community Services Department started to manage it because they did not know the procedures to accomplish termination through the Homelessness Management Information System (HMIS). Accordingly, even if the participant was no longer receiving assistance, no termination was recorded either on the participant files or HMIS. The Coordinator recently attended training about the termination process and the City stated that it will be implementing the process soon.

Effect

This situation constitutes noncompliance with the grant terms and condition which may be grounds for sanctions.

Questioned costs

Not applicable

Recommendation

We recommend that the City implements the termination process soon and at the same time strengthen controls to ensure that termination of HPRP assistance is properly documented in the participant files.

Views of Responsible Officials and Planned Corrective Actions

See Response on FS11-01

Finding F11-11 – Davis Bacon Act

Federal Program Information

<i>Federal Catalog Number:</i>	20.205
<i>Federal Program Name:</i>	Highway Planning and Construction (Federal-Aid Highway Program)
<i>Federal Agency:</i>	Department of Transportation
<i>Pass-Through Entity:</i>	State of California Department of Transportation (CALTRANS)
<i>Federal Award Number:</i>	ESPLE – 5210(016) ESPL – 5210(018)

Criteria or Requirement

Per the Local Assistance Procedure Manual, the administering agency must maintain sufficient records to ensure contractor/subcontractor compliance with wage and apprenticeship sections of the contract. Specific actions required include conducting spot interviews with employees on the project and cross checking reports, interviews, payrolls, and wage rates in order to determine the contractor's and subcontractor's compliance; comparing all force account or day labor work to certified payroll; and ensuring that employees' names, classifications, and wage rates match.

Condition Found

During our testing of Davis Bacon Act compliance requirement, we noted that all 3 subcontractors sampled did not have documentation that employee interviews were conducted. Per inquiry with the Senior Engineer and review of Labor Compliance folders, we were informed that interviews were randomly conducted only with the employees of the prime contractor.

Effect

This practice with the federal requirements and grant terms and conditions may be grounds for sanctions.

Questioned costs

Not applicable

Recommendation

We recommend that the City of El Monte implement stricter controls to ensure compliance with the federal program Davis Bacon Act requirements. Employee interviews should be conducted of employees of prime contractor and its sub-contractors.

Views of Responsible Officials and Planned Corrective Actions

See Response on FS11-01

Finding F11-12 – Reporting

Federal Program Information

<i>Federal Catalog Number:</i>	20.205
<i>Federal Program Name:</i>	Highway Planning and Construction (Federal-Aid Highway Program)
<i>Federal Agency:</i>	Department of Transportation
<i>Pass-Through Entity:</i>	State of California Department of Transportation (CALTRANS)
<i>Federal Award Number:</i>	ESPLE – 5210(016) ESPL – 5210(018)

Criteria or Specific Requirement

Per Master Agreement, the administering agency agrees, as a minimum, to submit invoices at least once every six (6) months commencing after the funds are encumbered on either the project-specific program supplement or through a project-specific finance letter approved by State.

Per Caltrans' Construction Policy Bulletin (CBP) 09-4, Form FHWA-1587, the "Monthly Summary Employment Report", must be submitted no later than the 8th of the month.

Condition

During our audit, we noted that the following reports were submitted late during the year.

- Billing #2 for Sidewalk Repair and Installation (ESPLE-5210(016)) was submitted on June 20, 2011 more than 6 months after submitting Billing #1 on July 8, 2010
- Billing #2 for Road Rehabilitation and Construction (ESPL-5210(018)) was submitted on June 9, 2011 more than 6 months after submitting Billing #1 on July 8, 2010
- Form FHWA-1587 "Monthly Summary Employment Report" for November 2010 for both projects were submitted on December 13, 2010
- Form FHWA-1587 "Monthly Summary Employment Report" for September 2010 for both projects were submitted on December 13, 2010
- Form FHWA-1587 "Monthly Summary Employment Report" for December 2010 for both projects were submitted on December 13, 2010

Possible Asserted Cause and Effect

Monitoring controls are not in place to ensure that required reports are submitted timely. These untimely reports constitute noncompliance with the grant terms and condition which may be grounds for sanctions.

Questioned Costs

Not applicable

Recommendation

The City should review its current procedures over financial and program reporting to ensure timely submission of the required reports.

Views of Responsible Officials and Planned Corrective Action

See Response on FS11-01

Finding F11-13 – Reporting

Federal Program Information

<i>Federal Catalog Number:</i>	81.128
<i>Federal Program Name:</i>	Energy Efficiency and Conservation Block Grant (EECBG) (ARRA)
<i>Federal Agency:</i>	Department of Energy
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number:</i>	DE-SC0003086

Criteria or Specific Requirement

Per OMB Circular A-133, EECBG recipients are required to comply with reporting requirements. EECBG grantees are required to submit the Federal Financial Report (SF-425) within 30 days after the end of quarter.

Per EECBG Program Notice 10-07A, Quarterly Report to DOE via PAGE must be submitted on or before the 30th of the month, following the close of the quarter for which data are being reported.

Condition

During our audit, we noted that the following reports were submitted late during the year.

- Federal Financial Report (SF-425) - Quarter 2 (October 1, 2010 to December 31, 2010) was submitted on March 10, 2011.
- Federal Financial Report (SF-425) - Quarter 4 (April 1, 2011 to June 30, 2011) was submitted on September 30, 2011.
- Quarterly Reports to DOE via PAGE - Quarter 1 (July 1, 2010 to September 30, 2010) was not submitted.
- Quarterly Reports to DOE via PAGE - Quarter 2 (October 1, 2010 to December 31, 2010) was submitted on February 24, 2011.
- Quarterly Reports to DOE via PAGE - Quarter 3 (January 1, 2011 to March 31, 2011) was submitted on May 5, 2011.

Possible Asserted Cause and Effect

Monitoring controls are not in place to ensure that required reports are submitted timely. These untimely reports constitute noncompliance with the grant terms and condition which may be grounds for sanctions.

Questioned Costs

Not applicable

Recommendation

The City should review its current procedures over financial and program reporting to ensure timely submission of the required reports. The City should also immediately submit any missing reports.

Views of Responsible Officials and Planned Corrective Action

See Response on FS11-01

Finding F11-14 – Internal Control over Davis Bacon Act

Federal Program Information

<i>Federal Catalog Number:</i>	81.128
<i>Federal Program Name:</i>	Energy Efficiency and Conservation Block Grant (ARRA)
<i>Federal Agency:</i>	Department of Energy
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number:</i>	DE-SC0003086

Criteria or Requirement

All laborers and mechanics employed by any contractor or subcontractor of the grantee during any construction, alteration, or repair activity funded, in whole or in part, by the grant shall be paid wages at rates not less than the prevailing wages for similar construction activities in the locality, as determined by the Secretary of Labor, in accordance with sections 3141 through 3144, 3146, and 3147 of Title 40, United States Code.

The subrecipient or contracting entity should perform the employee interviews and compare what is learned during the interview with what is appearing on the certified payroll records.

Condition Found

During our testing of Davis Bacon Act compliance requirement, we noted that 1 out of 3 employee interview documentations selected for review was unsigned and did not include documentation that information gathered from the interview is in agreement with payroll data.

Effect

This lack of documentation constitutes noncompliance with the federal requirements and grant terms and conditions which may be grounds for sanctions.

Questioned costs

Not applicable

Recommendation

We recommend that the City of El Monte implement stricter controls to ensure compliance with the federal program's Davis Bacon Act requirements. Information on wage rates gathered during the employee interviews should be compared with certified payrolls to determine if these are in agreement.

Views of Responsible Officials and Planned Corrective Actions

See Response on FS11-01

Finding F11-15 – Period of Availability

Federal Program Information

<i>Federal Catalog Number:</i>	81.128
<i>Federal Program Name:</i>	Energy Efficiency and Conservation Block Grant (ARRA)
<i>Federal Agency:</i>	Department of Energy
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number:</i>	DE-SC0003086

Criteria or Requirement

The U.S. Department of Energy (DOE) added interim milestones for Recovery Act grantees to ensure prudent management, oversight, and continued success of the program. Grantees should drawdown over 50% of funds at June 30, 2011

Condition Found

During our testing of period of availability compliance requirement, we noted that, as of June 30, 2011 the City of El Monte has spent and drawn 30.20% of its total grant. Hence, the City was not able to meet the June 30, 2011 milestone set by the Department of Energy.

Possible Asserted Cause and Effect

The City received the grant in December 2009. However, construction related to the project commenced only in March 2011. Failure to meet milestones set by the grantor constitutes noncompliance with the federal requirements and grant terms and conditions which may be grounds for sanctions.

Questioned costs

Not applicable

Recommendation

We recommend that the City of El Monte implement stricter controls to ensure compliance with the federal program's period of availability requirements. The City should monitor its program costs and drawdowns to ensure that milestones set by the grantor are met.

Views of Responsible Officials and Planned Corrective Actions

See Response on FS11-01

Finding F11-16 – Reporting

Federal Program Information

<i>Federal Catalog Number:</i>	16.804
<i>Federal Program Name:</i>	Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government
<i>Federal Agency:</i>	Department of Justice
<i>Pass-Through Entity:</i>	City of Los Angeles
<i>Federal Award Number:</i>	C - 118751

Criteria or Specific Requirement

Per Agreement with the City of Los Angeles, “Subrecipient shall prepare, maintain, and provide to the City on a quarterly basis, any and all invoices, purchase orders, proof of delivery, proof of payment and payroll records, timesheets, receipts and any other supporting documentation necessary to fully and accurately describe and support the use of Grant funds. All such documentation shall be submitted to the City commencing on the 5th day of January, April, July and October until the end of the grant term.”

Condition

During our audit, we noted that the following report was submitted late during the year.

- Quarterly Financial and Expenditure Documentation – Quarter 4 (April 1, 2011 to June 30, 2011) was submitted on July 6, 2011.

Possible Asserted Cause and Effect

Monitoring controls are not in place to ensure that required reports are submitted timely. These untimely reports constitute noncompliance with the grant terms and condition which may be grounds for sanctions.

Questioned Costs

Not applicable

Recommendation

The City should review its current procedures over financial and program reporting to ensure timely submission of the required reports.

Views of Responsible Officials and Planned Corrective Action

See Response on FS11-01

Finding F11-17 – Allowable Costs/Cost Principles

Federal Program Information

<i>Federal Catalog Number:</i>	16.000
<i>Federal Program Name:</i>	Federal Asset Forfeiture
<i>Federal Agency:</i>	Department of Justice
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number and Award Year:</i>	CA0192200

Criteria or Requirement

Per Title 2 – Grants and Agreements Part 225, Cost Principle for State, Local, and Indian Tribal Governments (OMB Circular A-87), factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- b. Be allocable to Federal awards under the provision of 2 CFR part 225.
- c. Be authorized or not prohibited under State or local laws or regulations.
- d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- g. Except as otherwise provided for in 2 CFR part 225, be determined in accordance with generally accepted accounting principles.
- h. Not be included as a cost or used to meet costs sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.
- i. Be the net of all applicable credits.
- j. Be adequately documented.

Per Guide to Equitable Sharing for State and Local Law Enforcement Agencies, state and local law enforcement agencies are prohibited from making cash transfers or donations to support community-based programs. Instead, agencies may directly purchase supplies, equipment, and/or services for eligible community-based programs, or reimburse such programs for eligible expenditures with a valid itemized receipt.

Condition Found

During our audit we noted the following:

- 1 disbursement out of 15 disbursements sampled was unreasonably charged and allocated to the Federal Asset Forfeiture Program; and
- 1 disbursement out of the 15 disbursements sampled charged to the Federal Asset Forfeiture Program was not permitted under the program.

Questioned Costs

\$104,694 of \$484,416 sampled

Possible Asserted Cause and Effect

The City charged 25% of 2009-2010 single audit fee and 60% of audit and accounting fees to the program. The program should be charged with a very minimal single audit fee, if any, since it was not audited as a major program in 2009-2010. In addition, allocating 60% of the audit and accounting fees to the program is unreasonable since the program's fund balance the end of FY 09-10 represented 1.5% of the City's total fund balance. Program expenditures that are unreasonably allocated to the program may be considered unallowable costs.

Furthermore, Federal Asset Forfeiture program funds were used for a donation made directly to a community-based program. Cash transfers to community-based programs are not permitted.

Recommendation

We recommend that the City of El Monte implement stricter controls to ensure compliance with the federal program requirements allowable/unallowable expenditures. Expenditures should be reasonably allocated to the program and the City should not use program funds for making cash transfers to community-based programs.

Views of Responsible Officials and Planned Corrective Action

See Response on FS11-01

Finding F11-18 – Reporting

Federal Program Information

<i>Federal Catalog Number:</i>	16.000
<i>Federal Program Name:</i>	Federal Asset Forfeiture
<i>Federal Agency:</i>	Department of Justice
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number and Award Year:</i>	CA0192200

Criteria or Specific Requirement

Per Guide to Equitable Sharing for State and Local Law Enforcement Agencies, state and local law enforcement agencies must submit the Federal Equitable Sharing Agreement and Certification Form annually within 60 days after the end of an agency's fiscal year.

Condition

During our audit, we noted that the Equitable Sharing Agreement and Certification Form was submitted on August 31, 2011, late by two days. In addition, total expenditures reported did not match those recorded in the general ledger by \$190,456.

Possible Asserted Cause and Effect

Monitoring controls are not in place to ensure that required reports are submitted accurately and timely. Reporting incorrect information to the grantor may provide grantors with inaccurate program costs incurred by the grantee. Untimely reporting constitutes noncompliance with the grant terms and condition which may be grounds for sanctions.

Questioned Costs

Not applicable

Recommendation

The City should review its current procedures over financial and program reporting to ensure timely and accurate submission of the required report.

Views of Responsible Officials and Planned Corrective Action

See Response on FS11-01

Finding F11-19 – Equipment Management – Policies and Procedures

Federal Program Information

<i>Federal Catalog Number:</i>	16.000
<i>Federal Program Name:</i>	Federal Asset Forfeiture
<i>Federal Agency:</i>	Department of Justice
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number and Award Year:</i>	CA0192200

Criteria or Specific Requirements

Title 28 – Judicial Administration, Part 66 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Subpart C – Post-Award Requirements Changes, Property, and Subawards, Section 66.32d Equipment Management Requirements, states the following:

Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.
- (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

Condition Found

During our audit we noted that inadequate controls over equipment management were in place at the City of El Monte. The City has no formal policies and procedures on updating and safeguarding capital assets, which include conducting periodic physical inventory count, tagging of capital assets items, updating capital assets registers on time, and reconciling capital assets registers with the balance per general ledger. In addition, the City did not maintain adequate property records that includes the data elements required by the federal regulations such as a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Possible Asserted Cause and Effect

The City does not have a policy that requires its departments to submit physical inventories of equipment annually or biannually nor does it require any reconciliation of those inventories to the Schedule of Fixed Assets or the general ledger maintained by the Finance Department. Not performing physical inventories and reconciling physical equipment to the Finance Department's Schedule of Fixed Assets increases the risk of theft or misappropriation of program equipment and is in violation of grantor requirements and federal regulations.

Recommendation

We recommend that the City strengthen policies and procedures to ensure that federal property management regulations are followed. These policies should include appropriate identification and tracking and physical inventories and reconciliations to promote accurate reporting and reduce the risk of misappropriation of program assets.

Views of Responsible Officials and Planned Corrective Actions

See Response on FS11-01

Finding F11-20 – Allowable Costs/Cost Principles

Federal Program Information

<i>Federal Catalog Number:</i>	16.710
<i>Federal Program Name:</i>	Public Safety Partnership and Community Policing Grants – COPS Hiring Recovery Program
<i>Federal Agency:</i>	Department of Justice
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number and Award Year:</i>	#2009RKWX0117 7/1/09 – 6/30/12

Criteria or Requirement

Per OMB A-133 Compliance Supplement, COPS Hiring Recovery Program (CHRP) grants fund the approved entry-level salaries and fringe benefits of newly hired or rehired full-time officers for 36 months of grant funding. The approved entry-level salaries and fringe benefits are based on a grantee agency's actual entry-level sworn officer salary and fringe benefit costs and are identified on the Final Financial Clearance Memorandum that is sent to the grantee agency. Any additional costs for higher than entry-level salaries and fringe benefits will be the responsibility of the grantee agency (42 USC 3796dd(b)).

Condition Found

During our audit of payroll expenditures charged to the program, we noted that 3 out of 6 officers were paid slightly more than the approved entry-level salaries indicated in the Final Financial Clearance Memorandum.

Possible Asserted Cause and Effect

Monitoring controls are not in place to ensure that only allowable costs are charged to the program. The salaries paid to these officers in excess of the entry-level salaries provided in the Final Financial Clearance Memorandum are not allowable and should not be charged to the program. This constitutes noncompliance which may be considered ground for withholding payments by the grantor.

Questioned Costs

\$604 of the \$20,109 salaries tested

Recommendation

We recommend that the City of El Monte implement stricter controls to ensure compliance with the requirements of the program and specific requirements regarding allowable/unallowable expenditures.

Views of Responsible Officials and Planned Corrective Actions

See Response on FS11-01

Finding F11-21 – Reporting

Federal Program Information

<i>Federal Catalog Number:</i>	16.710
<i>Federal Program Name:</i>	Public Safety Partnership and Community Policing Grants – COPS Hiring Recovery Program
<i>Federal Agency:</i>	Department of Justice
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number and Award Year:</i>	#2009RKWX0117 7/1/09 – 6/30/12

Criteria or Specific Requirement

Per COPS Hiring Recovery Program Grant Owner’s Manual, Quarterly Progress Reports must be submitted to the COPS Office no later than 30 days after the calendar quarter ends. In addition, ARRA Section 1512 Report must be submitted no later than the 10th day after the calendar quarter ends.

Condition

During our audit, we noted that the following report was submitted late during the year.

- ARRA Section 1512 Report - Quarter 4 (April 1, 2011 to June 30, 2011) was submitted on July 12, 2011

Possible Asserted Cause and Effect

Monitoring controls are not in place to ensure that required reports are submitted timely. This untimely reporting constitutes noncompliance with the grant terms and condition which may be grounds for sanctions.

Questioned Costs

Not applicable

Recommendation

The City should review its current procedures over financial and program reporting to ensure timely submission of the required reports.

Views of Responsible Officials and Planned Corrective Action

See Response on FS11-01

City of El Monte
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2011

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
FS 10-01	Financial Statements Reported in Accordance with Government Standards – Year-end Closing Process	<p>We recommend that the City of El Monte establish and document proper closing and reconciliation procedures and assign responsibility for completing the procedures to specific City personnel. The closing procedures should be documented in a checklist that indicates who will perform each procedure and when completion of each procedure is due and is accomplished. The timing of specific procedures could be coordinated with the timing of management's or the auditor's need for the information. These reconciliations will provide assurance that financial statements are meaningful and accurate.</p> <p>We also recommend that the City hire a competent Controller or Accounting Manager who will be responsible in ensuring that key internal control processes are implemented including timely update of subsidiary records and reconciliation of account balances, proper recording of transactions, and timely closing of the books.</p>	Not Implemented	See current year finding FS11-01

City of El Monte
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2011

FS 10-02	Financial Statements Reported in Accordance with Government Standards – Bank Reconciliation	We recommend that the City of El Monte reconcile all cash and investment accounts on a monthly, timely basis as required to ensure the integrity of the account balances recorded in the general ledger and financial statements. Furthermore, reconciliation of the main checking account and payroll account should be performed immediately upon receipt of the related bank statements to determine if there are material disbursements which were not accounted for properly.	Implemented	Not Applicable
FS 10-03	Financial Statements Reported in Accordance with Government Standards – Interfund Activity	We recommend that management enhance the review process to provide for monitoring of accounts that should balance to ensure that they are in balance and properly recorded in the general ledger. In addition, all journal entries should be reviewed for propriety, reasonableness and accounting accuracy by appropriate and knowledgeable personnel before posting to general ledger.	Implemented	Not Applicable

City of El Monte
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2011

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
FS 10-04	Financial Statements Reported in Accordance with Government Standards – Unrecorded Liabilities	We suggest management perform a thorough review of all subsequent disbursements for potential accrual, and provide further training to the Accounts Payable clerk in the accounting for and processing of year-end transactions.	Not Implemented	See current year finding FS11-02
FS 10-05	Financial Statements Reported in Accordance with Government Standards – Receivables	We recommend that management perform a thorough review of all subsequent receipts during year-end accounts receivable accrual analyses. Also, the City should review its procedures to ensure that all grants are properly reconciled after year end, and grant receivables and deferred revenue are properly established in the accounting records. In addition, grant-funded expenditures should be monitored at least monthly to identify reimbursable costs. The related grant reimbursement requests should be submitted on a timely basis, monthly or at least quarterly. Departments in charged with monitoring of the grants should communicate and coordinate with Finance Department personnel to ensure that reimbursement requests are submitted timely and that the City is collecting the money that is due.	Not Implemented	See current year finding FS11-03

City of El Monte
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2011

FS 10-06	Financial Statements Reported in Accordance with Government Standards – Payroll and Payroll Liabilities	We recommend that journal entries made by accounting personnel be properly reviewed by responsible and knowledgeable personnel before posting to general ledger. Moreover account balances should be reviewed timely to ensure that balances are correct.	Implemented	Not Applicable
FS 10-07	Financial Statement Reported in Accordance with Government Standards – Journal Entries	We recommend journal entries to be adequately and properly reviewed by responsible and knowledgeable personnel before entries are posted to the general ledger.	Implemented	Not Applicable
FS 10-08	Financial Statement Reported in Accordance with Government Standards – Unsupported loans between the City and Redevelopment Agency	The availability of records can be critical to a business organization in the event of an audit by federal or state agency, a lawsuit, an insurance claim, or a number of circumstances. Supporting documentation for items in the books of account should be readily available within the organization. We strongly recommend that a better system of document retention and file maintenance be implemented. A clear, written record-retention policy can help ensure that the appropriate records are available when they are needed. This type of file maintenance is a basic element of a strong system of accounting and related controls. Clearly, an	Implemented	Not Applicable

City of El Monte
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2011

		improved filing system would increase efficiencies and greatly aid the organization.		
FS 10-09	Financial Statement Reported in Accordance with Government Standards – Unrecorded capital lease transaction between the City and the Water Authority	We recommend that the City retain a skilled, knowledgeable Controller or Accounting Manager who will be responsible for making sure that key internal control processes are implemented and to ensure that all transactions are properly recorded.	Implemented	Not Applicable
FS 10-10	Financial Statement Reported in Accordance with Government Standards – Capital Assets	Detailed property records are important management tool in maintaining control over capital assets. The detailed records should be updated each time a piece of equipment is purchased, sold, or discarded. A fixed asset control system is invaluable in analyzing replacement needs, insurance coverage, inventorying of assets, and reducing the risk of losing assets. We also recommend that the City adopt a formal policy to ensure the proper reporting of capital asset disposal. The policy should include the necessary level of approval for the disposal. This information should be reported to the Finance Department on a timely basis so that accounting records can be properly updated. A simple standardized form could be developed to provide adequate	Not Implemented	See current year finding FS11-04

accounting documentation and to provide evidence of adherence to the City of El Monte's policy.

In addition, a physical inventory count of capital assets will provide the City with an accurate inventory of capital assets. In connection with this inventory, tags should be placed on each asset with numbers that are recorded in the detail property records. This will help improve the tracking of assets for disposal and impairment purposes. The resulting capital asset listing also will provide a strong source of detail and control to establish future system of safeguards for capital assets. . Capital asset inventories and listing are also required by Federal grantors who finance capital assets.

FS 10-11	Financial Statement Reported in Accordance with Government Standards – Budget and Appropriations	We recommend that the City comply with the requirement of the Code and ensure that an annual budget is adopted for all the funds of the City.	Not Implemented	See current year finding FS11-05
F10-01	Single Audit – Late Reporting to Federal Audit Clearinghouse	We recommend that the City of El Monte ensure that the accounting records are in an auditable condition in order that the annual	Implemented	

City of El Monte
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2011

		audit can be performed timely to comply with audit report submission deadlines.		
F10-02	Community Development Block Grant – Allowable Costs/Cost Principles	We recommend that the City of El Monte implement stricter controls to ensure compliance with the federal program requirements allowable/unallowable expenditures. Expenditures should be documented and basis of allocation for shared program costs should be reasonable and properly documented.	Not Implemented	See current year finding F11-01 and F11-02
F10-03	Community Development Block Grant – Program Income	The City should review its current procedures over reporting of program income to ensure timely reporting.	Not Implemented	See current year finding F11-03
F10-04	Community Development Block Grant – Reporting	The City should review its current procedures over financial and program reporting to ensure timely submission of the required reports.	Not Implemented	See current year finding F11-04
F10-05	Community Development Block Grant – Neighborhood Stabilization Program (NSP) - Reporting	The City should review its current procedures over financial and program reporting to ensure timely submission of the required reports.	Implemented	
F10-06	Public Safety Partnership and Community Policing Grants – COPS Hiring Recovery Program – Allowable Costs/Cost Principles	We recommend that the City of El Monte implement stricter controls to ensure compliance with the requirements of the program and specific requirements regarding allowable/unallowable expenditures.	Not Implemented	See current year finding F11-20

