

Single Audit Report
City of El Monte, California
Year ended June 30, 2013
with Report of Independent Auditors

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**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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of El Monte, California, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of El Monte's basic financial statements and have issued our report thereon dated December 12, 2013.

Internal Control Over Financial Reporting

Management of the City of El Monte is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered City of El Monte's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of El Monte's internal control. Accordingly, we do not express an opinion on the effectiveness of City of El Monte's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as FS13-01 that we consider to be a significant deficiency.

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 13-02 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 December 12, 2013.

City of El Monte's Response to Findings

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. The City of El Monte's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Vargay + Company LLP

**Los Angeles, California
December 12, 2013**

**Report of Independent Auditors on Compliance For Each Major Federal Program,
on Internal Control Over Compliance and on the Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the compliance of the City of El Monte, California with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of City of El Monte's major federal programs for the year ended June 30, 2013. City of El Monte's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of El Monte's major federal programs based on our audit of the types of compliance requirements referred to above. 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of City of El Monte's compliance.

Basis for Qualified Opinion on Home Investment Partnership Program

As described in the accompanying schedule of findings and questioned costs, the City of El Monte, California did not comply with Allowable Costs/Cost Principles, Earmarking, Program Income, Eligibility and Special Tests and Provisions requirements for CFDA No. 14.239, Home Investment Partnership Program as described in finding numbers F2013-3 through F2013-06. Compliance with such requirements is necessary, in our opinion, for the City of El Monte to comply with the requirements applicable to that program.

Qualified Opinion on Home Investment Partnership Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, City of El Monte, California complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Home Investment Partnership Program for the year ended June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City of El Monte, California complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items F13-01, F13-02, F13-07 and F13-08. Our opinion on each major federal program is not modified with respect to these matters.

City of El Monte's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of El Monte's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the City of El Monte is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of El Monte's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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 F2013-03 through F2013-06 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 F2013-01, F2013-02, F2013-07 and F2013-08 to be significant deficiencies.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

The City of El Monte's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of El Monte's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the City of El Monte, California as of and for the year ended June 30, 2013, and have issued our report thereon dated December 12, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Vergara + Company LLP

**Los Angeles, California
December 12, 2013**

City of El Monte
Schedule of Expenditures of Federal Awards
Year ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Award Expenditures
U.S. Department of Agriculture			
Passed through the State of California,			
Department of Education:			
Summer Food Service Program for Children	10.559	8190-5V	\$ 202,764
Total U.S. Department of Agriculture			<u>202,764</u> *
U.S. Department of Housing and Urban Development			
Direct Assistance:			
Community Development Block Grant Program			
Entitlement Grant	14.218	Various	3,621,764 *
Section 108 Guaranteed Loan	14.248	Various	1,500
Home Investment Partnership Program (Home)	14.239	Various	2,646,646 *
Emergency Shelter Grant	14.231	Various	8,667
Homelessness Prevention and Rapid Re-housing Program (HPRP)	14.257	Various	108,895
Total U.S. Department of Housing and Urban Development			<u>6,387,472</u>
U.S. Department of Justice			
Direct Assistance			
Federal Asset Forfeiture Program	16.000		262,424
COPS Hiring Recovery Program	16.710	2009RKWX0117	217,619
Passed through City of Los Angeles			
Edward Byrne Memorial Justice Assistance Grant (ARRA)	16.804	C-118751	55,394
Total U.S. Department of Justice			<u>535,437</u>
U.S. Department of Transportation			
Direct Assistance			
Rosemead - Telstar Intersection	20.600	HPLUL-5210(14)	11,225
Passed through State of California,			
Office of Traffic Safety:			
State and Community Highway Safety			
Sobriety Checkpoint	20.600	SC013125	27,794
Total U.S. Department of Transportation			<u>39,019</u>
U.S. Department of Energy			
Energy Efficiency Conservation Block Grant (EECBG)	81.128	DE-SC0003086	17,607
Total U.S. Department of Energy			<u>17,607</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 Incentive Program	93.053	AAA-ENP1-0809-007	129,073
Older American Act IIIB - ICM Supportive Services IIIB	93.044	SSP-1014-09	46,930
			176,003
National Family Caregiver Support, Title III E	93.052	FCSP-0913-005	10,406
Total U.S. Department of Health and Human Services			<u>186,409</u>
U.S. Department of Homeland Security			
Passed through the County of Los Angeles:			
Homeland Security Grant Program	97.067	2006-0071	602,471
Total U.S. Department of Homeland Security			<u>602,471</u>
Total Expenditures of Federal Awards			<u>\$ 7,971,179</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 Nos. 61 and 39, 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, 2013, 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
Home Investment Partnership Program	CFDA #14.239
Summer Food Service Program for Children (SFSPC)	CFDA #10.559

NOTE 3 PAYMENTS TO SUBRECIPIENTS

Subrecipient grants provided during the year are as follows:

Community Development Block Grant - Entitlement Grants	\$ 18,000
Home Investment Partnership Program (HOME)	31,552
Homelessness Prevention and Rapid Re-housing Program (HPRP)	5,750
Emergency Shelter Grant	4,973
Total	<u>\$ 60,275</u>

Section I – Summary of Auditors’ Results

Financial Statements

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

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: No

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 Home Investment Partnership Program
 Unmodified for Community Development Block Grant and Summer Food Service Program for Children

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133? Yes – F13-01 to F13-08

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
14.239	Home Investment Partnership Program (HOME)
10.559	Summer Food Service Program for Children (SFSPC)

Dollar threshold used to distinguish between
Type A and Type B programs: \$300,000

Auditee qualified as a low-risk auditee: No

Section II – Financial Statement Findings

FS 13-01: Year-end Closing Process

Condition and Context

The City's Finance Department does not have a full-time Director of finance or a Controller who is responsible for the timely and accurate posting of transactions and closing of the books at year-end. Significant turnover of Finance personnel and the use of temporary contractors have reduced the availability of time, institutional knowledge and experience necessary for an effective internal control environment. As a consequence:

- Notes receivables were not updated and reconciled with the general ledger in a timely manner.
- Cut-off procedures relating to year-end accruals were inadequate to ensure the recording of transactions in the proper period.
- Controls over the recording of non-routine transactions were inadequate. This deficiency of controls resulted in some transactions and accounting records that had to be revised and corrected during the year.

Above resulted in 15 adjusting journal entries (totaling approximately \$8.2 million) posted after the books were closed in order to correct the accounts for financial reporting purposes.

Cause and Effect

The City's Finance Director resigned in October 2012. The City attempted to augment its staff with an independent consultant who assisted the City in closing its books during the year and implemented some procedures. There were improvements noted in the process and the timeliness of the year-end closing process, however, staffing resources were still insufficient and certain internal control deficiencies remain uncorrected.

Recommendation

We recommend the City expedite the process of employing a Director of Finance and a Controller or an Accounting Manager to assume responsibility 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.

We further recommend that the City of El Monte establish and document proper closing and reconciliation procedures. 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 the adoption of a policy whereby all journal entries are to be approved by the Finance Director, Controller or other designated member of management. All entries should be initialed by the preparer and the individual approving them in order to attribute proper review and responsibility to the appropriate individuals.

Management Response and Planned Corrective Action

The City has started the recruitment process for a Finance Director and intends to fill this position within the next several months. Many of the year-end procedures improved since the previous two

years as additional contractors assisted the City in preparing for the year-end closing process in FY13.

Accounting personnel are aware of the importance of recording revenues and expenditures in the appropriate year. There were few instances in 2012-13 where invoices were charged to the incorrect period. Additionally it has been the unwritten finance department policy that journal entries for non-routine transactions are reviewed by a second person and in the latter half of 2012-13, the interim finance director or the interim assistant finance director performed an additional review of those transactions.

FS 13-02: 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, 2013, 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 practice constitutes noncompliance with the Municipal Code and is considered noncompliance reportable under *Government Auditing Standards*.

Recommendation

We recommend that the City comply with the requirements 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 and Planned Corrective Action

The City has addressed budgetary issues for special revenue funds on a fund by fund basis in fiscal year 2013 and has developed a new system for 2014. Budgetary reports have been distributed to departments on a recurring basis during 2013-14 which should ensure future compliance with the municipal code.

Section III – Federal Award Findings

Finding F13 - 01 – 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 12-13

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 firsthand 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 3 out of 6 employees sampled did not have documentation of the actual time and effort the employees expended on the program. The time sheets 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. Without proper documentation, these expenditures may be considered unallowable costs.

Questioned Costs

\$465 of \$1,366 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 spend on grant-financed activities should be properly documented to support salaries charged to the program.

Views of Responsible Officials and Planned Corrective Action

The City is in the process of implementing a new time activity tracking program, referred to as Kronos, to ensure that consistent and accurate time activity records for all employees and their various sources of funding are maintained. The City believes this timekeeping software will eliminate this finding in the future.

Finding F13-02 – 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-11-MC-06-0517 – FY 11-12 B-12-MC-06-0517 – FY 12-13

Criteria or Specific Requirement

Per OMB A-133, the grantee must accurately account for any program income generated from the use of CDBG 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 \$100,040 reported in IDIS for the fiscal year was different from the balance per the general ledger of \$209,786. \$76,394 was reported in IDIS as program income for FY 13-14. The remaining difference of \$33,352 was recorded in the City's general ledger but unreported in IDIS.

Possible Asserted Cause and Effect

The City did not have adequate monitoring controls in place to ensure the accurate and timely recording of program income in the general ledger and accordingly, reporting of program income to HUD. Unreported program income may result in funds being overdrawn from HUD.

Questioned Costs

Not applicable

Recommendation

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

Views of Responsible Officials and Planned Corrective Action

The City's Economic Development Department has established a new position in FY2014 and has procedures in place to coordinate with the Finance Department to ensure program income is reported accurately in the future.

Finding F13 - 03 – Allowable Costs/Cost Principles

Federal Program Information

<i>Federal Catalog Number:</i>	14.239
<i>Federal Program Name:</i>	Home Investment Partnership Program (HOME)
<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-12-MC-06-0517 – FY 12-13

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 firsthand 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 HOME program, we noted that the 1 employee sampled did not have documentation of the actual time and effort the employees expended on the program. The City used the budgeted fixed salary allocation percentage in distributing the salary of the employee 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. Without proper documentation, these expenditures may be considered unallowable costs.

Questioned Costs

\$146 for the pay period tested.

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 spend on grant-financed activities should be properly documented to support salaries charged to the program.

Views of Responsible Officials and Planned Corrective Action

The City is in the process of implementing a new time activity tracking program, referred to as Kronos, to ensure that consistent and accurate time activity records for all employees and their various sources of funding are maintained. The City believes this timekeeping software will eliminate this finding in the future.

Finding F13-04 – Earmarking

Federal Program Information

<i>Federal Catalog Number:</i>	14.239
<i>Federal Program Name:</i>	Home Investment Partnership Program (Home)
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Pass-Through Entity:</i>	N/A

Criteria or Requirement

Title 24 Housing and Urban Development, Part 92 – Home Investment Partnership Program, subpart G – Community Housing Development Organizations, Section 92.300 Set-aside for community housing development organizations (CHDOs):

(a)(1) Within 24 months after HUD notifies the participating jurisdiction of HUD's execution of the HOME Investment Partnerships Agreement, the participating jurisdiction must reserve not less than 15 percent of the HOME allocation for investment only in housing to be developed, sponsored, or owned by community housing development organizations. For a State, the HOME allocation includes funds reallocated under § 92.451(c)(2)(i) and, for a unit of general local government, funds transferred from a State under § 92.102(b). The funds are reserved when a participating jurisdiction enters into a written agreement with the community housing development organization. The funds must be provided to a community housing development organization, its subsidiary, or a partnership of which it or its subsidiary is the managing general partner. If a CHDO owns the project in partnership, it or its wholly owned for-profit or non-profit subsidiary must be the managing general partner. In acting in any of the capacities specified, the community housing development organization must have effective project control. In addition, a community housing development organization, in connection with housing it develops, sponsors or owns with HOME funds provided under this section, may provide direct homeownership assistance (e.g. downpayment assistance) and not be considered a subrecipient.

Condition Found

During our testing of the City's compliance with earmarking requirements, we noted that at least 15% of the HOME allocations for FY 12 and 13 were committed to Rio Hondo Community Development Corporation (RHCDC) as required as of June 30, 2013. However, per HUD monitoring report dated October 16, 2012, the department cannot establish the eligibility of RHCDC as a CHDO. The City of El Monte submitted documentation to HUD to seek approval for RHCDC's eligibility. As of the date of this report, the City has not received from HUD its approval or comments whether the documents submitted by the City were sufficient support or evidence of RHCDC's eligibility as a CHDO.

Effect

This constitutes noncompliance with the grant terms and condition which may be grounds for sanctions and recapture of funds by HUD.

Questioned costs

Not applicable

Recommendation

We recommend that the City identify projects and commit funds to eligible CHDOs within the specified timeframe to ensure compliance with federal requirements.

Views of Responsible Officials and Planned Corrective Actions

We believe RHDCD is an eligible CHDO and will continue to seek documentation of HUD's approval and/or comments on this.

Finding F13-05 – Eligibility and Special Tests and Provisions

Federal Program Information

<i>Federal Catalog Number:</i>	14.239
<i>Federal Program Name:</i>	Home Investment Partnership Program (Home)
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number:</i>	

Criteria or Requirement

Title 24: Housing and Urban Development, Part 92 – Home Investment Partnership Program, Subpart K – Program Administration

Section 92.508(a)(6) – Recordkeeping - General. Each participating jurisdiction must establish and maintain sufficient records to enable HUD to determine whether the participating jurisdiction has met the requirements of this part.

Program administration records.(i) Written policies, procedures, and systems, including a system for assessing risk of activities and projects and a system for monitoring entities consistent with this section, to ensure that the requirements of this part are met.

(ii) Records demonstrating compliance with the written agreements required by §92.504.

(iii) Records demonstrating compliance with the applicable uniform administrative requirements required by §92.505.

(iv) Records documenting required inspections, monitoring reviews and audits, and the resolution of any findings or concerns.

Section 92.504(d)(1) – Participating jurisdiction responsibilities, written agreements, on-site inspection. On-site inspections - The participating jurisdiction must inspect each project at project completion and during the period of affordability to determine that the project meets the property standards of §92.251.

Condition Found

During our testing of the City's compliance with eligibility and special tests and provisions requirements, we noted that there were no annual housing quality standard inspections, annual certification of continued household eligibility and annual affordability monitoring performed for FY 2012-2013 for all 3 HOME funded rental unit projects tested. All monitoring and inspection reports on file were outdated. The City has not monitored the rental projects to determine that ongoing affordability requirements are maintained during FY 2012-2013.

Effect

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

Questioned costs

Not applicable

Recommendation

We recommend that the City of El Monte implement stricter controls to ensure that HOME rental units are monitored and required documentation is maintained in accordance with the HOME program requirements.

Views of Responsible Officials and Planned Corrective Actions

The Economic Development Department has included additional positions in the FY13-14 budget and believes such inspections to be a high priority.

Finding F13-06 – Program Income

Federal Program Information

<i>Federal Catalog Number:</i>	14.239
<i>Federal Program Name:</i>	Home Investment Partnership Program (Home)
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number:</i>	

Criteria or Requirement

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

Condition Found

During our review of the HOME program income, we noted that program income of \$38,008 reported in IDIS for the fiscal year was different from the balance per the general ledger of \$380,552. \$48,609 was reported in IDIS as program income for FY 13-14. The remaining difference of \$293,935 was recorded in the City's general ledger and unreported in IDIS as of June 30, 2013.

Possible Asserted Cause and Effect

The City did not have adequate monitoring controls in place to ensure accurate and timely reporting of program income to HUD. Unreported program income may result in funds being overdrawn from HUD.

Questioned costs

Not applicable

Recommendation

The City should improve coordination between the Finance Department and program management personnel and review its current procedures over reporting of program income to ensure timely reconciliation and accurate reporting.

Views of Responsible Officials and Planned Corrective Actions

The City's Economic Development department has established a new position in FY2014 and has procedures in place to coordinate with the Finance Department to ensure program income is reported accurately in the future.

Finding F13-07 – Period of Availability

Federal Program Information

<i>Federal Catalog Number:</i>	14.239
<i>Federal Program Name:</i>	Home Investment Partnership Program
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number:</i>	

Criteria or Requirement

Title 24: Housing and Urban Development, Part 92 – Home Investment Partnership Program, Subpart K – Program Administration, Section 92.500 – The HOME Investment Trust Fund (d)(1)(B) Reductions.

HUD will reduce or recapture HOME funds in the HOME Investment Trust Fund by the amount of any funds in the United States Treasury account that are not committed within 24 months after the last day of the month in which HUD notifies the participating jurisdiction of HUD's execution of the HOME Investment Partnership Agreement.

Condition Found

During our testing of the City's compliance with period of availability requirements, we noted that HOME allocations for 2009-2010 totaling \$402,553 were not committed and spent during the required 2-year period.

Effect

This constitutes noncompliance with the grant terms and condition which may be grounds for recapture of funds by HUD.

Questioned costs

Not applicable.

Views of Responsible Officials and Planned Corrective Actions

The City intends to commit all available federal funds to comply with Federal Spending Requirements.

Finding F13 - 08 – Allowable Costs/Cost Principles

Federal Program Information

<i>Federal Catalog Number:</i>	10.559
<i>Federal Program Name:</i>	Summer Food Service Program for Children (SFSPC)
<i>Federal Agency:</i>	Department of Agriculture
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number and Award Year:</i>	

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 firsthand 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 Summer Food Service Program for Children, we noted that 2 out of 3 employees sampled did not have documentation of the actual time and effort the employees expended on the program. The time sheets that were provided reported the hours worked by the employee during the period but did not include the distribution of hours spent for the Summer Food Service Program for Children.

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. Without proper documentation, these expenditures may be considered unallowable costs.

Questioned Costs

\$136 of \$1,073 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 spend on grant-financed activities should be properly documented to support salaries charged to the program.

Views of Responsible Officials and Planned Corrective Action

The City is in the process of implementing a new time activity tracking program, referred to as Kronos, to ensure that consistent and accurate time activity records for all employees and their various sources of funding are maintained. The City believes this timekeeping software will eliminate this finding in the future.

City of El Monte
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2013

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
Financial Statement Findings				
FS 12-01	Financial Statements Reported in Accordance with Government Standards - Year-end Closing Process	<p>We recommend the City expedite the process of employing a Director of Finance and a Controller or an Accounting Manager to assume responsibility 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.</p> <p>We further recommend that the City of El Monte establish and document proper closing and reconciliation procedures. 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.</p> <p>We also recommend the adoption of a policy whereby all journal entries are to be approved by the Finance Director, Controller or other designated member of management. All entries should be initialed by the preparer and the individual approving them in order to attribute proper review and responsibility to the appropriate individuals.</p>	Partially Implemented	See current year finding FS13-01

City of El Monte
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2013

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
FS 12-02	Financial Statements Reported in Accordance with Government Standards – Capital Assets	<p>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.</p> <p>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.</p> <p>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 a future system of safeguards for capital assets. Capital asset inventories and listings are also required by Federal grantors who finance capital assets.</p>	Implemented	Not applicable

City of El Monte
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2013

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
FS 12-03	Financial Statements Reported in Accordance with Government Budgets and Appropriation	We recommend that the City comply with the requirements 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.	Partially Implemented	See current year finding FS12-02

City of El Monte
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2013

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
Federal Award Findings				
F 12-01	Community Development Block Grants/Entitlement Grants and Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded - Allowable Costs/Cost Principles	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 spend on grant-financed activities should be properly documented to support salaries charged to the program.	Not Implemented	See current year finding F 13-01
F 12-02	Community Development Block Grants/Entitlement Grants – Program Income	The City should review its current procedures over recording and reporting of program income to ensure timely and accurate reporting.	Not Implemented	See current year finding F-13-02
F 12-03	Homelessness and Prevention and Rapid Re-Housing Program (ARRA) - Eligibility	We recommend that the City implement stricter controls and procedures to ensure that program eligibility documentation is complete.	Not applicable	Program ended in August 2012

City of El Monte
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2013

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
Federal Award Findings				
F 12-04	Homelessness Prevention and Rapid Re-Housing Program (ARRA) – Special Test and Provisions	We recommend that the City strengthen controls to ensure that termination of HPRP assistance is properly documented in the participant files.	Not applicable	Program ended in August 2012
F 12-05	Homelessness Prevention and Rapid Re-Housing Program (ARRA) – Subrecipient Monitoring	We recommend that the City implement processes to ensure compliance with federal requirements on subrecipient monitoring.	Not applicable	Program ended in August 2012
F 12-06	Homelessness Prevention and Rapid Re-Housing Program (ARRA) – Internal Controls Over Activities Allowed & Allowable Costs	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.	Not applicable	Program ended in August 2012
F 12-07	Home Investment Partnership Program (Home) - Earmarking	We recommend that the City identify projects and commit funds to eligible CHDOs within the specified timeframe to ensure compliance with federal requirements.	Partially Implemented	See current year finding F-13-04
F 12-08	Home Investment Partnership Program (Home) - Program Income	The City should review its current procedures over reporting of program income to ensure timely and accurate reporting.	Not Implemented	See current year finding F-13-06
F 12-09	Energy Efficiency and Conservation Block Grant (EECBG) (ARRA) - Reporting	The City should review its current procedures over financial and program reporting to ensure timely submission of the required reports.	Implemented	Not applicable

City of El Monte
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2013

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
Federal Award Findings				
F 12-10	Homeland Security Grant Program – Equipment Management – Policies and Procedures	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.	Not Implemented	The City has no adequate resources to fully implement controls and ensure compliance with the requirements
F 12-11	Public Safety Partnership and Community Policing Grants – COPS Hiring Recovery Program – Internal Control over Allowable Costs	We recommend that the City of El Monte implement stricter controls to ensure internal controls are in place to ensure compliance with the program requirements on allowable costs.	Implemented	Not applicable
F 12-12	Public Safety Partnership and Community Policing Grants – COPS Hiring Recovery Program - Reporting	The City should review its current procedures over financial and program reporting to ensure timely submission of the required reports.	Implemented	Not applicable
F 12-13	Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program Grants to Units of Local Government – Internal Control over Allowable Costs	The City should review its current procedures over financial and program reporting to ensure timely submission of the required reports.	Not Implemented	Program was closed.
F 12-14	Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program Grants to Units of Local Government – Program Income	The City should review its current procedures over compliance with grant requirements.	Not Implemented	Program was closed.

