

Single Audit Report
City of El Monte, California
Year ended June 30, 2010
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 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, 2010, and have issued our report thereon dated May 31, 2011. In our report on the financial statements, our opinion on the basic financial statements of the City was qualified because, as described in the third paragraph, we were unable to obtain documentation to substantiate a portion of the loans from the City of El Monte to its Redevelopment Agency stated at \$46.2 million (including accrued interest of \$26.9 million) at June 30, 2010 which is presented as part of Advances to and from Other Funds of the City as described in Note 7 to the financial statements, nor were we able to satisfy ourselves as to the balance of such City loans to the Redevelopment Agency by performing other auditing procedures. Except as discussed in the preceding sentence, 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

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items FS 10-01 to FS 10-11, in combination, to be material weaknesses.

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 2010-11 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 May 31, 2011.

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
May 31, 2011

Report of Independent Auditors on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance 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, 2010. 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 F10-02 and F10-03 in the accompanying schedule of findings and questioned costs, the City of El Monte did not comply with requirements regarding Allowable Costs/Cost Principles and Program Income that are applicable to its Community Development Block Grant program. Compliance with such requirements is necessary, in our opinion, for the City of El Monte to comply with the requirements applicable to that program.

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, 2010. 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 F10-01 and F10-04 to F10-06.

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.

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.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items F10-02 and F10-03 to be significant deficiencies. 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.

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, 2010, and have issued our report thereon dated May 31, 2011, which contained a qualified 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
May 31, 2011

City of El Monte
Schedule of Expenditures of Federal Awards
Year ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Award Expenditures
U.S. Department of Housing and Urban Development			
Direct Assistance:			
Community Development Block Grant Program			
Entitlement Grant	14.218	B-09-MC-06-0517	\$ 2,380,423 *
Community Development Block Grant ARRA Entitlement Grants (Recovery Act Funded)	14.253	B-09-MY-06-0517	422,643 *
Section 108 Guaranteed Loan	14.248	Various	232,240
Home Investment Partnership Program (Home)	14.239	M-08-MC-06-0509 M-09-MC-06-0509	1,385,852 <u>142,763</u> 1,528,615
Emergency Shelter Grant	14.231	S-09-MC-06-0517	77,098
Homeless Prevention Rehousing Program (HPRP)	14.257	S-09-MY-06-0517	115,797
Passed through City of Baldwin Park:			
Neighborhood Stabilization Program (NSP)	14.228	09-NSP1-6254	<u>544,039</u> *
Total U.S. Department of Housing and Urban Development			<u><u>5,300,855</u></u>
U.S. Department of Justice			
Direct Assistance			
Federal Asset Forfeiture Program	16.000		792,617
COPS Hiring Recovery Program Grant	16.710	2009RKWX0117	<u>579,641</u> *
Total U.S. Department of Justice			<u><u>1,372,258</u></u>
U.S. Department of Transportation			
Passed through State of California ,			
Office of Traffic Safety:			
State and Community Highway Safety			
Sobriety Check Point	20.600	SCO 9125	21,803
OTS DUI Enforcement		AL0804	57,597
Sobriety Check Point		SC10125	47,631
Click it or ticket		CT 10125	<u>17,355</u>
Total U.S. Department of Transportation			<u><u>144,386</u></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>369,381</u> *
Total U.S. Department of Agriculture			<u><u>369,381</u></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	65,089
Nutrition Services (Recovery Act Funded)		AAA-ENP1	<u>37,342</u>
			<u>102,431</u>
Nutrition Service Incentive Program	93.053	AAA-ENP1	13,006
Older American Act IIIB	93.044	CK40123	31,539
National Family Caregiver Support, Title III E	93.052	FCSP-0913-005	<u>11,872</u>
Total U.S. Department of Health and Human Services			<u><u>158,848</u></u>
U.S. Department of Homeland Security			
Passed through the County of Los Angeles:			
Homeland Security Grant Program	97.067	2006-0071	<u>309,827</u>
Total U.S. Department of Homeland Security			<u><u>309,827</u></u>
Total Expenditures of Federal Awards			<u><u>\$ 7,655,555</u></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 the purposes of this schedule, financial awards includes 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 program.

NOTE 2 MAJOR PROGRAMS

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

Community Development Block Grant ARRA Entitlement Grants (Recovery Act Funded)	CFDA #14.253
Community Development Block Grant	CFDA #14.218
Community Development Block Grant - Neighborhood Stabilization Program	CFDA #14.228
Public Safety Partnership and Community Policing Grants - COPS Hiring Recovery Program Grant	CFDA #16.710
Summer Food Service Program for Children	CFDA #10.559

NOTE 3 PAYMENTS TO SUBRECIPIENTS

There were subrecipient grants awarded from U.S. Department of Housing and Urban Development, Community Development Block Grant - Entitlement Grant. These subrecipient grants totaled \$207,297.

Section I – Summary of Auditors’ Results

Financial Statements

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

Internal control over financial reporting:

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

Noncompliance material to the financial statements noted: No

Federal Awards

Internal control over its major programs:

- Material weakness(es) identified: No
- 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
 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 – F10-01 to F10-06

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
14.228	Community Development Block Grant - Neighborhood Stabilization Program
16.710	Public Safety Partnership and Community Policing Grants - COPS Hiring Recovery Program Grant
10.559	Summer Food Service Program for Children

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 10-01: 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:

- Reconciliation of major balance sheet accounts. Cash and investment accounts were not being reconciled monthly.
- 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. Additions, deletions and depreciation were not recorded as of May 16, 2011.
- 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

During the fiscal year 09-10, there was major personnel turnover in the City including the resignation of the accounting manager. A new Finance Director was hired in 2010. However, currently, the accounting personnel and support are not sufficient and knowledgeable to ensure the books are updated and transactions are recorded correctly. These conditions resulted in delays in producing closing entries, trial balances, schedules, reconciliations, account analysis, and other financial reports needed by management and the auditors and also caused numerous post-closing adjustments.

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 or the auditor's need for the information. 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 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

There are a number of financial statement finding presented in this year's audit that highlight deficiencies in the City's accounting practices and internal controls. Although the City has been impacted by staff reductions caused by budget pressure over the past few years, a number of the City's accounting practices, which have been outlined in the Auditor's schedule of findings, are deficient or in need of improvement.

The City Manager and City Council are aware of these accounting deficiencies and have committed to provide the needed resources to address these concerns. Management has taken a proactive stance in addressing these issues and has already taken a number of steps to correct them: starting with hiring a new finance director and audit firm this past year.

This past year's focus has been primarily on discovery, but management has begun to implement an action plan, which includes hiring additional accounting staff and devoting additional resources that will enable the City/Agency to meet its audit compliance requirements going forward. The Finance Department's primary objectives in this upcoming year will be to obtain the needed loan documentation between the City and Agency and to improve its internal accounting controls. Specifically, the City will seek to improve its bank reconciliation, year-end closing, and accounting practices outlined in the auditor's schedule of findings.

The City has hired additional accounting staff to assist in completing its cash/bank reconciliation process; and, as part of this past year's audit process the City has updated its schedule of fixed assets. The City will focus on improving its accounting practices in order to ensure a timely closing of the books for FY 2010-11, which will include a more timely reconciliation of major balance sheet accounts, grant programs, revenues, and accounts payable. The City will work closely with the auditor to implement new policies and recommendations to correct deficiencies in internal control outlined in the auditor's report and management letter.

FS 10-02: Bank Reconciliation

Condition and Context

During our review of cash and investments, it was determined that the main checking account and payroll account were not properly reconciled. It was also noted that reconciliations for both main account and payroll account were not prepared on a timely basis. In addition, transfers to payroll account are not accounted for properly in the reconciliation prepared by management. Lastly, we noted material outgoing wire transfers were not recorded in the books.

Cause and Effect

This is a recurring finding from prior year. The accounting personnel and support are not adequately skilled and trained to ensure that bank reconciliations are prepared correctly. In addition, bank statements were accumulated for several months before efforts were made to reconcile them to the appropriate general ledger controls accounts. Not reconciling the accounts on a monthly, timely basis means that errors or irregularities might not be detected and resolved on a timely basis.

Recommendation

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.

Management Response

Refer to management response on finding FS 10-01.

FS 10-03: Interfund Activity

Condition and Context

During our analysis of interfund activity, it was determined that the due to and due from other fund accounts were not in balance by a material amount. Moreover, accounts which record transfers in and transfers out were also not in balance as of the end of the fiscal year.

Cause and Effect

Management does not have a system in place for monitoring and reviewing interfund transactions. In addition, journal entries for interfund transactions prepared by accounting personnel were not in balance, thus causing the general ledger to be out of balance.

Recommendation

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.

Management Response

Refer to management response on finding FS 10-01.

FS 10-04: Unrecorded Liabilities

Condition and Context

During our search for unrecorded liabilities, we noted 12 material invoices amounting to \$394,955 which related to fiscal year 2009-2010 but were not properly recognized as a liability in the prior fiscal year. These invoices were paid in fiscal year 2010-2011 but were overlooked by management when analyzing the 2009-2010 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

Refer to management response on finding FS 10-01.

FS 10-05: Receivables

Condition and Context

During our audit of receivables, it was noted that there is one material receivable that was related to fiscal year 2007-2008 and subsequently collected during fiscal year 2009-2010 was still reported as outstanding in fiscal year 2009-2010. This error caused receivables to be overstated by approximately \$299,600 and revenue to be overstated by the same amount. An audit adjustment was made to correct the balances.

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 is 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 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.

Management Response

Refer to management response on finding FS 10-01.

FS 10-06: Payroll and Payroll Liabilities

During our audit of payroll and payroll liabilities, we noted that payments made for taxes and other payroll liabilities were not properly recorded. Payments of liabilities in the following year were recorded as expenses of the current period instead of as a reduction of the payroll liability account. This practice resulted in overstatements of the liability and the related expenditure accounts. This condition was brought to management's attention and was subsequently reviewed and corrected.

Cause and Effect

There is inadequate review of entries made by accounting personnel to ensure that transactions are recorded properly. In addition, monthly reviews and monitoring of account balances did not occur to ensure that account balances are correctly stated.

Recommendation

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.

Management Response

Refer to management response on finding FS 10-01.

FS 10-07: Journal Entries

Condition and Context

We noted material errors in journal entries posted by management. As an example, interest revenue was incorrectly credited instead of the applicable transfer in account.

Cause and Effect

The journal entries were not adequately and properly reviewed to ensure that the transactions are properly recorded before posting to general ledger which resulted in incorrect account balances of various revenue accounts. Audit adjustments were made to correct the errors.

Recommendation

We recommend journal entries to be adequately and properly reviewed by responsible and knowledgeable personnel before entries are posted to the general ledger.

Management Response

Refer to management response on finding FS 10-01.

FS 10-08: Unsupported loans between the City and the Redevelopment Agency

Condition and Context

The Redevelopment Agency currently has loans from the City. However, efforts during the audit process to locate documentation of these loans were unsuccessful. We noted that 69% of the total dollar amount of loans between the City and the Redevelopment Agency did not have supporting documentation such as loan agreements and/or adopted or approved resolutions. Hence, we were not able to substantiate such loans during our audit.

Cause and Effect

The City of El Monte did not maintain a good system of record keeping, tracking and retention of its loan documents. Moreover, during fiscal year 09-10 there were major personnel turnover in the City including the resignation of the accounting manager. The current finance department personnel have no knowledge of the location of these loan documents.

Recommendation

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 improved filing system would increase efficiencies and greatly aid the organization.

Management Response

Refer to management response on finding FS 10-01.

FS 10-09: Unrecorded capital lease transaction between the City and the Water Authority

Condition and Context

During our audit we noted that there was a capital lease transaction in prior year between the City and the Water Authority that remained unrecorded in the books.

Cause and Effect

The former Finance Director and Accounting Manager failed to reflect and record in the City's books the capital lease transaction between the City and the Water Authority. This situation was brought to the attention of management and an adjustment was proposed to record the transaction, which were recorded.

Recommendation

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.

Management Response

Refer to management response on finding FS 10-01.

FS 10-10: Capital Assets

Condition and Context

During our audit, it was noted that the City has not reclassified as capital assets some items which should be capitalized. We noted various pieces of land which were purchased and were not recorded as capital assets. Journal entries were made to record the capital assets.

Moreover, it was noted that 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.

Cause and Effect

Based on our inquiry of City personnel, it appears that these capital assets were missed because of lack of communication between departments. Also, 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 count of assets may result in the overstatement of the recorded capital assets.

Recommendation

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 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.

Management Response

Refer to management response on finding FS 10-01.

FS 10-11: 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, 2010, 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 material weakness 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.

Management Response

The City will ensure that budget amendments are properly done and that an annual budget will be adopted for all the funds for the fiscal year 2010-2011. Refer also to management response on finding FS 10-01.

Section III – Federal Award Findings

Finding F10-01 – Late Reporting to Federal Audit Clearinghouse

Federal Program Information

<i>Federal Catalog Number:</i>	N/A
<i>Federal Program Name:</i>	N/A
<i>Federal Agency:</i>	N/A

Criteria or Requirement

OMB Circular A-133 Subpart C Section .320 Report Submission:

The audit shall be completed and the data collection form and reporting package shall be submitted by the earlier date of either 30 days after receipt of the auditor's report(s), or nine months after the end of the fiscal year end date, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

Condition Found

The City of El Monte did not meet the deadline for the audit completion and submission of its data collection form for the fiscal year ending June 30, 2010.

Questioned Costs

Not applicable

Possible Asserted Cause and Effect

Because of management turnover, the City did not have its accounting records closed, in balance and supported by reconciled subsidiary ledgers as required for completion of the financial statement audit. This delay constitutes noncompliance with the federal requirements which may be grounds for unnecessary sanctions.

Recommendation

We recommend that the City of El Monte ensure that the accounting records are in an auditable condition in order that the annual audit can be performed timely to comply with audit report submission deadlines.

Views of Responsible Officials and Planned Corrective Action

Refer to management response on finding FS 10-01.

Finding F10-02 – Allowable Costs/Cost Principles

Federal Program Information

<i>Federal Catalog Number:</i>	14.218
<i>Federal Program Name:</i>	Community Development Block Grant
<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

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 5 disbursements out of 32 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 & CDBG-R, and
- 2 disbursements did not have any proper support or documentation to indicate that the expenditures were for CDBG or CDBG-R

Questioned Costs

\$51,911.50 of \$1,095,297.85 sampled

Possible Asserted Cause & 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 and supporting timesheets for professional services 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-R programs. In addition, we noted an expenditure item that was 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 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

As of May 15, 2010, The City's consultant has adjusted its accounting system to track time spent on eligible activities by fund type (e.g. CDBG, HOME, ESG, CDBG-R, HPRP, etc).

According to the 2009 Memorandum of Understanding with the Community Services Division for the Senior Swim and Exercise program, \$15,000 in CDBG funds was awarded to this program. Of the \$15,000, \$10,000 was to be used to pay for utilities. In response to the auditor's finding, a review of Senior Swim and Executrices Program utility costs was completed by Housing Division and Finance staff. Based on the results of our review, we found the utility charges against the CDBG program to be equitably distributed among all other funding sources.

Finding F10-03 – Program Income

Federal Program Information

<i>Federal Catalog Number:</i>	14.218
<i>Federal Program Name:</i>	Community Development Block Grant
<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

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 loan repayments earned during fiscal year 2009-2010 was not reported in IDIS 2009-2010 PR026 Report. The program income reported was the program income earned in the prior fiscal year 2008-2009.

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 reporting.

Views of Responsible Officials and Planned Corrective Action

Housing staff has established a procedure and has trained housing accounting staff on how to report program income in IDIS. This procedure should resolve this issue.

Finding F10-04 – Reporting

Federal Program Information

<i>Federal Catalog Number:</i>	14.218 14.253
<i>Federal Program Name:</i>	Community Development Block Grant 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-09-MY-06-0517

Criteria or Specific Requirement

Per OMB Circular A-133, recipients of CDBG are required to comply with reporting requirements. Quarterly financial transaction reports are due on or before the 15th of the month following the end of each quarter. Also, 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.

The CDBG-R Notice, Section II.A waived the requirement at 24 CFR Section 91.505©(1) that states a grantee may submit a copy of an amendment to its action plan to HUD as it occurs or at the end of the program year has been waived to require each grantee to submit the substantial amendment to its action plan for CDBG-R funds no later than June 5, 2009.

Condition

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

- Federal Cash Transactions Report (SF-272) Qtr 1 - July 1, 2009 - September 30, 2009 – submitted November 2, 2010
- Federal Cash Transactions Report (SF-272) Qtr 2 - October 1, 2009 - December 31, 2009 – submitted November 2, 2010
- Federal Cash Transactions Report (SF-272) Qtr 3 - January 1, 2010 – March 31, 2010 - submitted November 2, 2010
- ARRA Section 1512 Report Qtr 2 – October 1, 2009 – December 31, 2009 was submitted on January 15, 2010
- ARRA Section 1512 Report Qtr 4 – April 1, 2010 – June 30, 2010 was submitted on July 12, 2010
- The 2009-2010 Annual Action Plan was submitted late. City Council approved the funding recommendations for the projects included in the plan on July 7, 2009 after the plan's due date of May 15, 2009.
- The Substantial Amendment to the Action Plan for CDBG-R was submitted on June 8, 2009.

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

Like other departments and divisions of the City, the Housing Division was significantly impacted by the recent staff layoffs. As a result, required Financial Cash Transaction (SF272) reports were not submitted to HUD on a timely basis. In March 2010, HUD staff notified the City and housing consultants, MDG Associates Inc., about this issue. MDG responded to this issue by submitting all delinquent SF272 reports to HUD on behalf of the City and establishing a schedule for "on-time" submittal of this report.

The reporting deadline on Federalreporting.gov was extended several times during the program year by the federal government. The proof of this extension was in the minutes from a Federalreporting.gov "Live Chat" session with customer services which states that there were no timelines for reporting statistics for October 2009 or December 2009 and the deadline for the April 1, 2010 thru June 30, 2010 ARRA Section 1512 report was July 14th.

The City Council Agenda for the second meeting in April and first meeting in May was extremely large. Although the approval of the 2009-2010 Action Plan was on both agendas, this item was pushed to the following City Council meeting. To avoid the push of the approval of the Annual Action Plan to the next City Council Meeting, Housing Division staff will revise its schedule for the development and approval of the Annual Action Plan so that it goes to City Council during the first meeting in April.

Finding F10-05 – Reporting

Federal Program Information

<i>Federal Catalog Number:</i>	14.228
<i>Federal Program Name:</i>	Community Development Block Grant/State's Program – Neighborhood Stabilization Program (NSP)
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Pass-Through Entity:</i>	State of California Department of Housing and Community Development
<i>Federal Award Number and Award Year:</i>	#09-NSP1-6254 5/5/2010 - 9/30/2011

Criteria or Requirement

Per grant agreement, the City is required to submit Quarterly Performance and Expenditures Report on or before January 15, April 15, July 15 and October 15 of each year during the term of the agreement after initial receipt of grant funds and until June 20, 2010.

Condition Found

During our testing of the City's compliance with reporting requirements, we noted that the Quarterly Performance and Expenditure Report for the quarter ended March 31, 2010 was submitted on April 22, 2010 which is after the deadline stated in the grant agreement.

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 sanction.

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 Actions

The City of El Monte has entered into a Joint Use Agreement with the City of Baldwin Park to receive and report on the use of NSP Funds from the State of California. In the NSP agreement with the City of Baldwin Park, the City of Baldwin Park is the lead agency for reporting and requesting funding from the State of California on the City of El Monte's behalf. According to a conversation with Lynn Sekas, State CDBG Auditor, on 5/23/2011 she stated that the NSP QPER was submitted to the State on April 27, 2010. The due date for this report was April 15, 2010. While the State prefers reports to be submitted on time, there was no late submission penalty assessed for the City. It should be noted that the April 2010 report was the only report that was submitted to the State late. Because the City is viewed as an NSP subrecipient of the City of Baldwin Park, the City of El Monte has no control of the timely submission of QPERs by the City of Baldwin Park to the State.

Finding F10-06 – 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, 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 all 6 officers were paid more than the approved entry-level salaries indicated in the Final Financial Clearance Memorandum.

Possible Asserted Cause & 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

\$1,959 of the \$19,857 salaries tested

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions

The City will implement processes and controls to ensure compliance with the applicable federal requirements.

City of El Monte
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2010

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
09-1	Financial Statements Reported in Accordance with Government Standards – Cash and Investments	We recommend management reconcile all cash and investment accounts on a monthly basis to verify the balance on the general ledger is properly recorded	Not Implemented	Management turn-over and shortage of resources
09-2	Financial Statements Reported in Accordance with Government Standards – Interfund Activity	We recommend that management enhance the review process that monitors any schedule of accounts to ensure that they are in balance and properly recorded in the general ledger	Not Implemented	Management turn-over and shortage of resources
09-3	Financial Statements Reported in Accordance with Government Standards – Unrecorded Liabilities	We suggest management perform a thorough review of all subsequent disbursements for potential accrual	Not Implemented	Management turn-over and shortage of resources

City of El Monte
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2010

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
9-04	Financial Statements Reported in Accordance with Government Standards – Payroll	We recommend the City use the payroll module included with the new software to reduce the risk of error. We also recommend management review the journal to record payroll prior to posting to the general ledger in order to detect any potential errors.	Implemented	Not Applicable
9-05	Financial Statements Reported in accordance with Government Standards – Capital Assets	We suggest management perform a thorough review of all capital assets acquired during the year to ensure they are properly recorded.	Not Implemented	Shortage of resources
9-06	Financial Statements Reported in Accordance with Government Standards – Grants	Reimbursement requests should be submitted on an on-going basis. Since the monitoring of grants is decentralized, we recommend constant communication being made with the other departments and Finance so that reimbursement requests are being submitted timely and the City is receiving the money it is due.	Not Implemented	Shortage of resources
9-07	Financial Statement Reported in Accordance with Government Standards – Fund Balance	The restatement to the beginning fund balance is a result of implementing the new financial software without verifying the beginning balances matched the amounts reported in the financial statements in the prior year.	Implemented	Not Applicable

