

Single Audit Report
City of El Monte, California
Year ended June 30, 2012
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, 2012, which collectively comprise City of El Monte's basic financial statements and have issued our report thereon dated March 28, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

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, we considered the City of El Monte's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of El Monte's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of El Monte's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting as described in the accompanying schedule of findings and questioned costs as items FS 12-01 to FS 12-02 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of El Monte's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance, described as Finding FS 12-03 in the accompanying schedule of findings and questioned costs that is required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the City of El Monte in a separate letter dated March 28, 2013.

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

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

Vargay + Company LLP

Los Angeles, California
March 28, 2013

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

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

Compliance

We have audited the compliance of the City of El Monte, California with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. 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 F12-03 to F12-06 in the accompanying schedule of findings and questioned costs, the City of El Monte did not comply with requirements regarding Eligibility, Special Tests and Provisions, and Subrecipient Monitoring that are applicable to its Homelessness Prevention and Rapid Re-Housing Program (HPRP). Compliance with such requirements is necessary, in our opinion, for the City of El Monte to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of El Monte complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. 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 F12-01 to F12-02 and F12-06 to F12-14.

Internal Control Over Compliance

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

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings F12-03 to F12-05 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 F12-01 to F12-02 and F12-07 to F12-14, collectively, to be significant deficiencies.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2012, and have issued our report thereon dated March 28, 2013, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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.

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.

Virquez + Company LLP

Los Angeles, California
March 28, 2013

City of El Monte
Schedule of Expenditures of Federal Awards
Year ended June 30, 2012

City of El Monte
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
Year Ended June 30, 2012

| 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 | \$ 303,252 |
| Total U.S. Department of Agriculture | | | <u>303,252</u> |
| U.S. Department of Housing and Urban Development | | | |
| Direct Assistance: | | | |
| Community Development Block Grant Program | | | |
| Entitlement Grant | 14.218 | B-10-MC-06-0517 B-11-MC-06-0517 | 1,793,814 * |
| Community Development Block Grant ARRA Entitlement | | | |
| Grants (Recovery Act Funded) | 14.253 | B-09-MY-06-0517 | 2,741 * |
| Section 108 Guaranteed Loan | 14.248 | Various | 48,642 |
| Home Investment Partnership Program (Home) | 14.239 | M-11-MC-06-0509 | 634,650 * |
| Emergency Shelter Grant | 14.231 | S-11-MC-06-0517 | 72,014 |
| Homelessness Prevention and Rapid Re-housing Program (HPRP) | 14.257 | S-09-MY-06-0517 | 309,442 * |
| Total U.S. Department of Housing and Urban Development | | | <u>2,861,303</u> |
| U.S. Department of Justice | | | |
| Direct Assistance | | | |
| Federal Asset Forfeiture Program | 16.000 | | 406,069 |
| COPS Hiring Recovery Program | 16.710 | 2009RKWX0117 | 866,064 * |
| Passed through City of Los Angeles | | | |
| Edward Byrne Memorial Justice Assistance Grant (ARRA) | 16.804 | C-118751 | 172,591 * |
| Total U.S. Department of Justice | | | <u>1,444,724</u> |
| U.S. Department of Transportation | | | |
| Passed through State of California, Office of Traffic Safety: | | | |
| State and Community Highway Safety | | | |
| Sobriety Checkpoint | 20.600 | SC11125 | 19,750 |
| OTS DUI Enforcement | 20.600 | AL1176 | 51,247 |
| Total U.S. Department of Transportation | | | <u>70,997</u> |
| U.S. Department of Energy | | | |
| Energy Efficiency Conservation Block Grant (EECBG) | 81.128 | DE-SC0003086 | 776,883 * |
| Total U.S. Department of Energy | | | <u>776,883</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 | 132,625 |
| Older American Act IIIB - ICM Supportive Services IIIB | 93.044 | SSP-1014-09 | 49,970 |
| | | | <u>182,595</u> |
| National Family Caregiver Support, Title III E | 93.052 | FCSP-0913-005 | 11,396 |
| Total U.S. Department of Health and Human Services | | | <u>193,991</u> |
| U.S. Department of Homeland Security | | | |
| Passed through the County of Los Angeles: | | | |
| Homeland Security Grant Program | 97.067 | 2006-0071 | 403,311 * |
| Total U.S. Department of Homeland Security | | | <u>403,311</u> |
| | | | |
| Total Expenditures of Federal Awards | | | <u>\$ 6,054,461</u> |

* Major Programs

See accompanying notes to Schedule of Expenditures of Federal Awards.

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

Scope of Presentation

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

Basis of Accounting

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

Schedule of Expenditures of Federal Awards

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

Relationship to Financial Statements

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

Relationship to Federal Financial Reports

Grant expenditure reports as of June 30, 2012, which have been submitted to grantor agencies, will, in some cases, differ from amounts disclosed herein. The reports for grantor agencies are typically prepared at a later date and often reflect refined estimates of the year-end accruals.

NOTE 2 MAJOR PROGRAMS

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

| | |
|---|--------------|
| Community Development Block Grant | CFDA #14.218 |
| Community Development Block Grant ARRA Entitlement Grants (Recovery Act Funded) | CFDA #14.253 |
| Homelessness Prevention and Rapid Re-housing Program (HPRP) (Recovery Act Funded) | CFDA #14.257 |
| Home Investment Partnership Program | CFDA #14.239 |
| Public Safety Partnership and Community Policing Grants - COPS Hiring Recovery Program Grant | CFDA #16.710 |
| Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government – (Recovery Act Fund) | CFDA #16.804 |
| Homeland Security Grant Program | CFDA #97.067 |
| Energy Efficiency and Conservation Block Grant | CFDA #81.128 |

NOTE 3 PAYMENTS TO SUBRECIPIENTS

Subrecipient grants provided during the year are as follows:

| | |
|--|-------------------|
| Community Development Block Grant - Entitlement Grants | \$ 19,573 |
| Home Investment Partnership Program (HOME) | 50,000 |
| Homelessness Prevention and Rapid Re-Housing Program (HPRP) | 52,209 |
| Emergency Shelter Grant | 72,014 |
| Total | <u>\$ 193,796</u> |

Section I – Summary of Auditors’ Results

Financial Statements

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

Internal control over financial reporting:

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

Noncompliance material to the financial statements noted: 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 Homelessness Prevention and Rapid Re-Housing Program (HPRP)
 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 – F12-01 to F12-14

City of El Monte
Schedule of Findings and Questioned Costs
Year ended June 30, 2012

Identification of Major Programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------|--|
| 14.253 | Community Development Block Grant ARRA Entitlement Grants (Recovery Act Funded) |
| 14.218 | Community Development Block Grant |
| 14.257 | Homelessness Prevention and Rapid Re-housing Program (HPRP) (Recovery Act Funded) |
| 14.239 | Home Investment Partnership Program (HOME) |
| 16.710 | Public Safety Partnership and Community Policing Grants - COPS Hiring Recovery Program Grant |
| 16.804 | Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government |
| 97.067 | Homeland Security Grant Program |
| 81.128 | Energy Efficiency and Conservation Block Grant |

| | |
|---|-----------|
| 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 12-01: Year-end Closing Process

Condition and Context

The City's Finance Department is inadequately staffed to ensure 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 of the limited staffing, this year's closing process was delayed because some important procedures were not performed on time or inadequately. These include:

- Notes receivables were not updated and reconciled with the general ledger in a timely manner.
- Capital assets registers were not updated and reconciled with the general ledger in a timely manner.
- Cut-off procedures 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.

Cause and Effect

The City's Finance Director resigned in October 2012. The City attempted to augment its staff with independent consultant who assisted the City in closing its books during the year and implemented some procedures. Staffing resources were nonetheless 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

Many of the year-end procedures suffered as the City continued to recover from a problematic computer conversion coupled with heavy lay-offs. The City is faced with ever increasing budgetary pressures which have led to a reduction in both staff and resources.

City of El Monte
Schedule of Findings and Questioned Costs
Year ended June 30, 2012

However, staff assignments have been formally made to ensure year-end reconciliations are prepared in a timely manner. The responsibility for some of the schedules noted by the audit firm lies with other city departments and the schedules were not prepared despite repeated requests by finance staff.

The accountant responsible for the preparation of Capital Asset reports in fiscal year 2011 had taken a position with the City's audit firm and remaining city personnel lacked the understanding of the processes and computer procedures to prepare the Capital Asset reports for fiscal year 2012. The City contracted with its audit firm for the assistance of that accountant with the training of staff in the preparation of the 2012 capital asset reports.

Accounting personnel have been made aware of the importance of recording revenues and expenditures in the appropriate year. Accounts Payable cut-off has been supplemented by additional review of invoices which led to numerous subsequent accruals for fiscal year 2011-12. Despite having appropriate cut-off procedures, there were a few of invoices which were charged to the improper period.

It has been the finance department policy that journal entries for non-routine transactions are reviewed by a second person, the finance department consultant or the accountant. This review is documented by the consultant's initials or by the accountant initials or posting of the journal entries.

Significant staff has been retained, an interim Finance Director and an Interim Assistant Finance Director who is a CPA. The high level of staff will make a difference in internal controls and Finance operations.

FS 12-02: Capital Assets

Condition and Context

Based on our recommendation in the prior year, the City developed formal policies and procedures for updating and safeguarding capital assets. The following policies and procedures are not yet implemented by the City: (1) conducting periodic physical inventory counts, (2) updating capital assets registers on a timely basis, (3) timely reporting of asset disposals, and (4) reconciling capital assets registers with the general ledger balances on a timely basis.

Cause and Effect

Cost reduction measures implemented by the City resulted in staffing limitations that contributed to the inadequate implementation of effective internal controls.

Recommendation

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

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

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.

Management Response and Planned Corrective Action

The municipal code outlines procedures for asset disposition and is the City's formal policy. As a result of the aforementioned cost cutting measures, no physical count has been made for several years. It is our hope that we will be able to complete physical reviews of capital assets in the near future. The updating and reconciling of the Capital Asset registers is an annual process using the City's computer system. The accountant responsible for the preparation of Capital Asset reports in fiscal year 2011 had taken a position with the City's audit firm and created a void in the knowledge of the processes and computer procedures to prepare the Capital Asset reports for fiscal year 2012. The City contracted with its audit firm for the assistance of that accountant with the training of staff in the preparation of the 2012 capital asset reports.

FS 12-03: 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, 2012, 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 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 is in the process of evolving a new system for 2014. Budgetary reports will be distributed to departments on a recurring basis during 2013 and 2014 which should ensure future compliance with the municipal code.

Section III – Federal Award Findings

Finding F12 - 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 10-11 |

Criteria or Specific Requirement

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

- 1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
- (2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.
- (3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having 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 6 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.

In addition, we noted expenditure items that were charged to the program as a result of a reclassification made from another program. The City of El Monte was not able to provide evidence that such expenditures were properly chargeable to the CDBG program.

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

\$28,249 of \$946,909 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 investigating a software solution to this finding. It will implement the software as soon as it is available including completion of appropriate departmental and finance training.

Finding F12-02 – 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-09-MC-06-0517 – FY 09-10 B-10-MC-06-0517 – FY 10-11 |

Criteria or Specific Requirement

Per OMB A-133, the grantee must accurately account for any program income generated from the use of CDBG funds, 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 \$179,552 reported in IDIS for the fiscal year was different from the balance per the general ledger of \$38,928. The difference was \$140,624 which the City was unable to support.

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.

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 consultant has hired a new accountant in FY2013 and has procedures in place to coordinate with the Finance Department to ensure program income is reported accurately in the future.

Finding F12-03 – Eligibility

Federal Program Information

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

Criteria or Specific Requirement

Eligible populations for Homelessness Prevention and Rapid Re-Housing Program (HPRP) are persons who are still housed but are at risk of becoming homeless and persons who are already homeless. In order to receive financial assistance or services funded by HPRP, individuals and families whether homeless or housed, must at least meet the following criteria:

1. Any individual or family provided with financial assistance through HPRP must have at least an initial consultation with a case manager or other authorized representative who can determine the appropriate type of assistance to meet their needs. HUD encourages communities to have a process in place to refer persons ineligible for HPRP to the appropriate resources or service provider that can assist them.
2. The household must be at or below 50 percent of Area Median Income (AMI). Income limits are available on HUD's web site at: <http://www.huduser.org/DATASETS/il.html>. Grantees should use HUD's Section 8 income eligibility standards for HPRP.
3. The household must be either homeless or at risk of losing its housing and meet both of the following circumstances: (1) no appropriate subsequent housing options have been identified; AND (2) the household lacks the financial resources and support networks needed to obtain immediate housing or remain in its existing housing.

Condition

During our audit, we noted that eligibility case files were missing for 2 out of 25 participants we tested for eligibility. Moreover, 9 out of 25 participants tested did not have any documentation of three month eligibility re-certification for household eligibility and appropriateness for services/assistance.

Possible Asserted Cause and Effect

According to the program manager, the City transferred certain files during the year. This resulted in files that were either missing or incomplete.

Questioned Costs

Not applicable

Recommendation

We recommend that the City implement stricter controls and procedures to ensure that program eligibility documentation is complete.

Views of Responsible Officials and Planned Corrective Action

The HPRP Program ended in August 2012. The Economic Development department had procedures in place to monitor the eligibility of all applicants but chronic staffing shortages allowed those procedures to not be strictly adhered to in 2012.

Finding F12-04 – Special Test and Provisions

Federal Program Information

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

Criteria or Requirement

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

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

Condition Found

9 out of 25 participants tested did not have documentation of participant termination.

Possible Asserted Cause and Effect

During the FY 10-11, the City of El Monte Community Services Department HPRP program did not have a formal termination process. The Community Services Department did not know how to process termination through the Homelessness Management Information System (HMIS). After attending the training, the City started implementing the process during the FY 11-12. However, it appears that controls over the termination process are still inadequate.

Questioned costs

Not applicable

Recommendation

We recommend that the City strengthen controls to ensure that termination of HPRP assistance is properly documented in the participant files.

Views of Responsible Officials and Planned Corrective Actions

This program ended in August 2012. While it was operational, the duration of the rental assistance under this program was for three (3) months only. Accordingly, Economic Development staff believes that participants who applied and receive three month rental assistance and did not want further assistance after the three month term will often “walk away” from the program assistance without being re-screened for eligibility after the initial three month period is over. These former participants are not considered “terminated” and no termination procedures are required or followed for these individuals who did not seek assistance beyond the three month period. Additionally, because the program funding ended for participants, Economic Development staff does not believe these former participants were terminated. As a further mitigating factor, the funding for the administrative costs associated with the program ended with the program, and it may be possible that procedures were not strictly followed because there were no funds to ensure termination paperwork was completed or maintained.

Finding F12-05 – Subrecipient Monitoring

Federal Program Information

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

Criteria or Requirement

A pass-through entity is responsible for:

- Award Identification – At the time of the award, identifying to the subrecipient the Federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements.
- During-the-Award Monitoring – Monitoring the subrecipient’s use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- Subrecipient Audits – (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 (the circular is available on the Internet at <http://www.whitehouse.gov/omb/circulars/a133/a133.html>) and that the required audits are completed within 9 months of the end of the subrecipient’s audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient’s audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Ensuring Accountability of For-Profit Subrecipients – Awards also may be passed through to for-profit entities. For-profit subrecipients are accountable to the pass-through entity for the use of Federal funds provided. Because for-profit subrecipients are not subject to the audit requirements of OMB Circular A-133, pass-through entities are responsible for establishing requirements, as needed, to ensure for-profit subrecipient accountability for the use of funds.

- Pass-Through Entity Impact – Evaluating the impact of subrecipient activities on the pass-through entity’s ability to comply with applicable Federal regulations.
- Central Contractor Registration – Identifying to first-tier subrecipients the requirement to register in the Central Contractor Registration, including obtaining a Dun and Bradstreet Data Universal Numbering System (DUNS) number, and maintain the currency of that information (Section 1512(h) of ARRA, and 2 CFR section 176.50(c)).

Condition Found

A portion of the City of El Monte's HPRP grant fund was allocated to a subrecipient, the El Monte South El Monte Emergency Resource Association, for the period from June 30, 2010 to June 30, 2012.

Based on the results of our inquiries, we noted that the City of El Monte did not perform any of the above monitoring procedures for its subrecipient during the fiscal year ending June 30, 2012 and therefore, was not in compliance with the federal requirements on subrecipient monitoring.

Effect

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

Questioned costs

Not applicable

Recommendation

We recommend that the City implement processes to ensure compliance with federal requirements on subrecipient monitoring.

Views of Responsible Officials and Planned Corrective Actions

This program ended in August 2012. The lack of monitoring is directly related to the staffing shortages but the City will make efforts to ensure the subrecipient monitoring is properly performed and documented in the future.

Finding F12-06 – Internal Controls Over Activities Allowed & Allowable Costs

Federal Program Information

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

Criteria or Specific Requirement

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

Condition

During our audit, we have tested the City's internal controls over compliance with the above requirements relative to rental assistance payments. We tested a total of 25 participants and noted that all clients selected for review did not include any documentation that the City, before providing rental assistance, verified whether participants are receiving the same cost type (rent payments, utility assistance, moving costs, utility deposits, rental arrears) through another federal, state, or local subsidy program nor were receiving rental assistance under another program (either full or partial subsidy) during the time that HPRP funds are used for rental assistance during that same time period.

Effect

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

Questioned Costs

Not applicable

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions

This program ended in August 2012. The City will take steps to ensure appropriate verifications of assistance payments are made if required under future grants providing temporary rental assistance.

Finding F12-07 – 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 |
| <i>Federal Award Number:</i> | |

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 10 and 11 were not committed to CHDOs as required as of June 30, 2012.

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

The City acknowledged that the earmarking was not completed within the program year, however, earmarking to CHDOs was done within 24 months of the City receiving the HOME funds as required.

Finding F12-08 – 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 \$21,382 was not reported in IDIS 2011-2012 PR09 Report although this income was recorded in the City's general ledger and properly considered available for program expenditures.

Effect

The City did not have adequate monitoring controls in place to ensure accurate and timely reporting of program income to HUD.

Questioned costs

Not applicable

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions

The Economic Development Department had procedures in place to ensure program income is properly reported but chronic staffing shortages allowed those procedures to not be strictly adhered to in 2012.

Finding F12-09 – Reporting

Federal Program Information

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

Criteria or Specific Requirement

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

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

Condition

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

- SF-425 Federal Financial Report July 1, 2011 – September 30, 2011 was submitted December 19, 2011, 50 days after the deadline.
- SF-425 Federal Financial Report October 1, 2011 – December 31, 2011 was submitted on April 18, 2012, 79 days after the deadline.
- Quarterly Reporting to DOE July 1, 2011 – September 30, 2011 was submitted November 2, 2011, 3 days after the deadline.
- Quarterly Reporting to DOE October 1, 2011 – December 31, 2011 was submitted on April 10, 2012, 71 days after the deadline.
- Section 1512 ARRA Reporting to DOE October 1, 2011 – December 31, 2011 was submitted on January 11, 2012, 1 day after the deadline.

Possible Asserted Cause and Effect

Monitoring controls are not in place to ensure that required reports are submitted timely.

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

Staffing difficulties and computer conversion problems led to a number of reports not being submitted on a timely basis. Management has taken steps to ensure that all reports are submitted on a timely basis in the future.

Finding F12-10 – Equipment Management – Policies and Procedures

Federal Program Information

| | |
|---|---------------------------------|
| <i>Federal Catalog Number:</i> | 97.067 |
| <i>Federal Program Name:</i> | Homeland Security Grant Program |
| <i>Federal Agency:</i> | Department of Homeland Security |
| <i>Pass-Through Entity:</i> | County of Los Angeles |
| <i>Federal Award Number and Award Year:</i> | 2006-0071 |

Criteria or Specific Requirements

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

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

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

Condition Found

During our audit we noted that for equipment acquired using Federal grants, the City did not maintain adequate property records that includes the data elements required by the Federal regulations such as a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. The City did not also conduct physical inventory of capital assets during the last 2 years.

Possible Asserted Cause and Effect

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

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions

The City has a capital asset system that allows it to capture all the information required under the federal property management standards including tag number and the portion financed by federal funds. Budgetary pressures have led to a reduction in both staff and resources available for all city functions. Consequently physical inventories of capital assets have not been performed for several years and tag and other required information has not been input into the capital asset system. The City intends to annually perform a physical inventory of Capital Assets in the near future and to update its Capital Asset Module to reflect all required information as funding and staff become available.

Finding F12-11 – Internal Control over Allowable Costs

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

To provide reasonable assurance that federal awards are expended only for allowable activities and that the costs of goods and services charged to federal awards are allowable and in accordance with the applicable cost principles, management should implement controls and procedures to ensure that expenditures charged to the program are properly supported, reviewed and approved.

Condition Found

During our audit of payroll expenditures charged to the program, we noted that timesheets for 12 out of 12 payroll samples tested were not signed by the employees nor approved by the supervisor.

Possible Asserted Cause and Effect

Monitoring controls are not in place to ensure that costs charged to the program are reviewed and approved.

Questioned Costs

Not applicable.

Recommendation

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.

Views of Responsible Officials and Planned Corrective Actions

The City is investigating a software solution to this finding. It will implement the software as soon as it is available including completion of appropriate departmental and finance training.

Finding F12-12 – Reporting

Federal Program Information

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

Criteria or Specific Requirement

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

Condition

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

- *Section 1512 ARRA Reporting Qtr. 2 - October 1, 2011 -December 31, 2011 was submitted on January 11, 2012, 1 day after the deadline date of January 10, 2012;*
- *Quarterly Progress Reports Qtr. 1- July 1, 2011- September 30, 2011 was submitted on October 11, 2011, 1 day after the deadline date of October 10, 2011;*
- *Quarterly Progress Reports Qtr. 2- October 1, 2011- December 31, 2011 was submitted on January 11, 2012, 1 day after the deadline date of January 10, 2012;*
- *Quarterly Progress Reports Qtr. 3- January 1, 2012- March 31, 2012 was submitted on April 24, 2012, 14 days after the deadline date of April 10, 2012;*
- *Quarterly Progress Reports Qtr. 4- April 1, 2012- June 30, 2012 was submitted on July 27, 2012, 17 days after the deadline date of July 10, 2012.*

Possible Asserted Cause and Effect

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

Questioned Costs

Not applicable

Recommendation

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

Views of Responsible Officials and Planned Corrective Action

Staffing difficulties and computer conversion problems led to a number of reports not being submitted on a timely basis. Management has taken steps to ensure the all programs are reported on a timely basis in the future.

Finding F12-13 – Internal Control over Allowable Costs

Federal Program Information

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

Criteria or Requirement

To provide reasonable assurance that federal awards are expended only for allowable activities and that the costs of goods and services charged to federal awards are allowable and in accordance with the applicable cost principles, management should implement controls and procedures to ensure that expenditures charged to the program are properly supported, reviewed and approved.

Condition Found

During our audit of payroll expenditures charged to the program, we noted that timesheets for 25 out of 25 payroll samples tested were not signed by the employees nor approved by the supervisor.

Possible Asserted Cause and Effect

Monitoring controls are not in place to ensure that costs charged to the program are reviewed and approved.

Questioned Costs

Not applicable.

Recommendation

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.

Views of Responsible Officials and Planned Corrective Actions

The City is investigating a software solution to this finding. It will implement the software as soon as it is available including completion of appropriate departmental and finance training.

Finding F12-14 – Program Income

Federal Program Information

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

Criteria or Requirement

Per grant agreement with the City of Los Angeles, “the grant recipient must account for all interest income earned from the Recovery Act JAG 09 Grant. In accordance with OJP guidelines, interest earned on JAG funds is considered program income and must be expended only on allowable purpose areas under these programs.”

Condition Found

During our review of the grant fund revenue detail report, we noted that no interest income was allocated to this grant fund during the fiscal year ended June 30, 2012.

Effect

The City did not have adequate monitoring controls in place to ensure proper recording of program income in accordance with the grant requirements.

Questioned costs

\$128.

Recommendation

The City should review its current procedures over compliance with grant requirements.

Views of Responsible Officials and Planned Corrective Actions

The City will take action to ensure interest is allocated as required in the future.

City of El Monte
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2012

| Finding Reference | Finding Description | Recommendation | Current Status | Explanation if not fully implemented |
|------------------------------|--|---|-----------------------|---|
| Financial Statement Findings | | | | |
| FS 11-01 | Financial Statements Reported in Accordance with Government Standards - Year-end Closing Process | <p>We recommend that the City of El Monte establish and document proper closing and reconciliation procedures and assign responsibility for completing the procedures to specific City personnel. The closing procedures should be documented in a checklist that indicates who will perform each procedure and when completion of each procedure is due and is accomplished. The timing of specific procedures could be coordinated with the timing of management's 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 that the City hire a competent Controller or Accounting Manager who will be responsible for ensuring that key internal control processes are implemented including timely update of subsidiary records and reconciliation of account balances, proper recording of transactions, and timely closing of the books.</p> | Partially Implemented | See current year finding FS12-01 |
| FS 11-02 | Financial Statements Reported in Accordance with Government Standards - Unrecorded Liabilities | We suggest management perform a thorough review of all subsequent disbursements for potential accrual, and provide further training to the Accounts Payable clerk in the accounting for and processing of year-end transactions. | Partially Implemented | See current year finding FS12-01 |

City of El Monte
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2012

| Finding Reference | Finding Description | Recommendation | Current Status | Explanation if not fully implemented |
|--------------------------|--|---|-----------------------|---|
| FS 11-03 | Financial Statements Reported in Accordance with Government Standards - Receivables | We recommend that management perform a thorough review of all subsequent receipts during year-end accounts receivable accrual analyses. Also, the City should review its procedures to ensure that all grants are properly reconciled after year end, and grant receivables and deferred revenue are properly established in the accounting records. In addition, grant-funded expenditures should be monitored at least monthly to identify reimbursable costs. The related grant reimbursement requests should be submitted on a timely basis, monthly or at least quarterly. Departments 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. | Partially Implemented | See current year finding FS12-01 |
| FS 11-04 | Financial Statements Reported in Accordance with Government Standards - Capital Assets | 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. | Partially Implemented | See current year finding FS12-02 |

City of El Monte
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2012

| Finding Reference | Finding Description | Recommendation | Current Status | Explanation if not fully implemented |
|--------------------------|---|--|-----------------------|---|
| | | <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. 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.</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 future system of safeguards for capital assets. Capital asset inventories and listings are also required by Federal grantors who finance capital assets.</p> | | |
| FS 11-05 | Financial Statements Reported in Accordance with Government Standards - Budget and Appropriations | We recommend that the City comply with the requirement of the Code and ensure that an annual budget is adopted for all the funds of the City. Further, control procedures should be implemented to ensure adherence to the approved budget. | Not implemented | See current year finding FS 12-03 |

City of El Monte
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2012

| Finding Reference | Finding Description | Recommendation | Current Status | Explanation if not fully implemented |
|-------------------------------|---|---|-----------------------|---|
| Federal Award Findings | | | | |
| F 11-01 | 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. Expenditures should be documented and basis of allocation for shared program costs should be reasonable and properly documented. | Not Implemented | See current year finding F 12-01 |
| F 11-02 | Community Development Block Grants/Entitlement Grants – 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 put to the grant should be properly documented to support salaries charged to the program. | Not Implemented | See current year finding F 12-01 |
| F 11-03 | Community Development Block Grants/Entitlement Grants – 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-12-02 |
| F 11-04 | Community Development Block Grant/Entitlement Grants and Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded) – 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, 2012

| Finding Reference | Finding Description | Recommendation | Current Status | Explanation if not fully implemented |
|-------------------------------|---|---|-----------------------|---|
| Federal Award Findings | | | | |
| F 11-05 | Community Development Block Grant/Entitlement Grants – Subrecipient Monitoring | The City should review its current procedures over monitoring subrecipients to ensure that it is done periodically and provides reasonable assurance that subrecipients used Federal awards for authorized purposes, complied with laws, regulations, and the provisions of contracts and grant agreements, and achieved performance goals. | Implemented | Not applicable. |
| F 11-06 | 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 Implemented | See current year finding F 12-03 |
| F 11-07 | Homelessness Prevention and Rapid Re-Housing Program (ARRA) – Cash Management | We recommend that the City of El Monte implement stricter controls to ensure compliance with the federal program cash management requirements. Program costs should be incurred and paid prior to requesting reimbursement from the grantor. | Implemented | Not applicable |
| F 11-08 | Homelessness Prevention and Rapid Re-Housing Program (HPRP) (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
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Year ended June 30, 2012

| Finding Reference | Finding Description | Recommendation | Current Status | Explanation if not fully implemented |
|-------------------------------|--|--|-----------------------|---|
| Federal Award Findings | | | | |
| F 11-09 | Homelessness Prevention and Rapid Re-Housing Program (HPRP) (ARRA) | The City should review its current procedures over financial and program reporting to ensure that reports submitted are accurate. | Implemented | Not applicable |
| F 11-10 | Homelessness Prevention and Rapid Re-Housing Program (HPRP) (ARRA) – Special Test and Provisions | We recommend that the City implements the termination process soon and at the same time strengthen controls to ensure that termination of HPRP assistance is properly documented in the participant files. | Not Implemented | See current year finding F 12-04 |
| F 11-11 | Highway Planning and Construction (Federal-Aid Highway Program) – Davis Bacon Act | We recommend that the City of El Monte implement stricter controls to ensure compliance with the federal program Davis Bacon Act requirements. Employee interviews should be conducted of employees of prime contractor and its sub-contractors. | Not applicable | Program was completed in FY 10-11. |
| F 11-12 | Highway Planning and Construction (Federal-Aid Highway Program) - Reporting | The City should review its current procedures over financial and program reporting to ensure timely submission of the required reports. | Not applicable | Program was completed in FY 10-11. |
| F 11-13 | 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. The City should also immediately submit any missing reports. | Not Implemented | See current year finding F 12-09 |

City of El Monte
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| Finding Reference | Finding Description | Recommendation | Current Status | Explanation if not fully implemented |
|-------------------------------|---|---|-----------------------|--|
| Federal Award Findings | | | | |
| F 11-14 | Energy Efficiency and Conservation Block Grant (EECBG) (ARRA) –Davis Bacon Act | We recommend that the City of El Monte implement stricter controls to ensure compliance with the federal program’s Davis Bacon Act requirements. Information on wage rates gathered during the employee interviews should be compared with certified payrolls to determine if these are in agreement. | Implemented | Not applicable. |
| F 11-15 | Energy Efficiency and Conservation Block Grant (EECBG) (ARRA) – Period of Availability | We recommend that the City of El Monte implement stricter controls to ensure compliance with the federal program’s period of availability requirements. The City should monitor its program costs and drawdowns to ensure that milestones set by the grantor are met. | Implemented | Not applicable |
| F 11-16 | Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government – 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 11-17 | Federal Asset Forfeiture – Allowable Costs/Cost Principles | We recommend that the City of El Monte implement stricter controls to ensure compliance with the federal program requirements allowable/unallowable expenditures. Expenditures should be reasonably allocated to the program and the City should not use program funds for making cash transfers to community-based programs. | Implemented | Not applicable |
| F 11-18 | Federal Asset Forfeiture – Reporting | The City should review its current procedures over financial and program reporting to ensure timely and accurate submission of the required report. | Partially implemented | Se management’s response on current year’s findings. |

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| Finding Reference | Finding Description | Recommendation | Current Status | Explanation if not fully implemented |
|--------------------------|--|--|-----------------------|---|
| Federal Award Findings | | | | |
| F 11-19 | Federal Asset Forfeiture – Equipment Management | 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 | |
| F 11-20 | Public Safety Partnership and Community Policing Grants – COPS Hiring Recovery Program – Allowable Costs/Cost Principles | We recommend that the City of El Monte implement stricter controls to ensure compliance with the requirements of the program and specific requirements regarding allowable/unallowable expenditures. | Implemented | Not applicable |
| F 11-21 | 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. | Not Implemented | See current year finding F 12-12 |

