



City of El Monte, California
Single Audit Report
Year ended June 30, 2015
with Report of Independent Auditors

An Independently Owned Member
McGLADREY ALLIANCE



M&C Vasquez
& Company LLP
Certified Public Accountants and Business Consultants

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**Report of Independent Auditors on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of El Monte, California, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of El Monte's basic financial statements and have issued our report thereon dated December 23, 2015.

Internal Control Over Financial Reporting

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

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

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



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 or other matters that is described in the accompanying schedule of findings and questioned costs as Finding FS 2015.001.

We noted certain other matters that we reported to management of the City of El Monte in a separate letter dated December 23, 2015.

City of El Monte's Response to Findings

The City of El Monte's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of El Monte's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Vargay + Company LLP

**Los Angeles, California
December 23, 2015**

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

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

Report on Compliance for Each Major Federal Program

We have audited the compliance of the City of El Monte, California with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of City of El Monte's major federal programs for the year ended June 30, 2015. City of El Monte's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of El Monte's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of El Monte's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of El Monte's compliance.

Opinion on Each Major Federal Programs

In our opinion, the City of El Monte, California complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.



Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items F2015.001 through F2015-006. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

Management of the City of El Monte is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of El Monte's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of El Monte's internal control over compliance.

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. *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.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items F2015.001 through F2015.006 that we consider to be significant deficiencies.

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



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

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

We have audited the financial statements of the City of El Monte, California as of and for the year ended June 30, 2015, and have issued our report thereon dated December 23, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Vargus + Company LLP

**Los Angeles, California
December 23, 2015**

City of El Monte
Schedule of Expenditures of Federal Awards
Year ended June 30, 2015

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	\$ <u>127,702</u>
Total U.S. Department of Agriculture			<u>127,702</u>
U.S. Department of Housing and Urban Development			
Direct Assistance: Community Development Block Grant Program Entitlement Grant	14.218	Various	1,704,612 *
Home Investment Partnerships Program (Home)	14.239	Various	589,132 *
Emergency Shelter Grant	14.231	Various	<u>71,086</u>
Total U.S. Department of Housing and Urban Development			<u>2,364,830</u>
U.S. Department of Justice			
Direct Assistance Federal Asset Forfeiture Program	16.992	CA0192200	1,313,218
Passed through City of Los Angeles Edward Byrne Memorial Justice Assistance Grant	16.804	C-118751	<u>52,606</u>
Total U.S. Department of Justice			<u>1,365,824</u>
U.S. Department of Transportation			
Passed through State of California, Department of Transportation State and Community Highway Safety Rosemead - Telstar Intersection	20.600	HPLUL-5210(14)	1,699,207 *
Passed through State of California, Office of Traffic Safety: State and Community Highway Safety OTS STEP Grant	20.600	PT-1457	27,183 *
OTS STEP Selective Traffic Enforcement Program	20.600	PT 15124	107,213 *
Sobriety Checkpoint	20.600	SCO 14125	<u>32,415 *</u>
Total U.S. Department of Transportation			<u>1,866,018</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 the Aging, Title III, Part B (Grants for Supportive Services and Senior Centers)	93.044	SSP141806	52,020 *
Special Programs for the Aging, Title III, Part C Nutrition Services	93.045	ENP-1216-06	134,718 *
Nutrition Services Incentive Program	93.053	ENP-1216-06	<u>12,895 *</u>
Total U.S. Department of Health and Human Services			<u>199,633</u>
Total Expenditures of Federal Awards			<u>\$ 5,924,007</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 agencies providing financial awards. For purposes of this schedule, financial awards include federal awards received directly from a federal agency, federal funds received indirectly by the City from a nonfederal agency or other organization. Only the portion of program expenditures reimbursable with such federal and selected state funds is reported in the accompanying schedule. Program expenditures in excess of the maximum reimbursement authorized or the portion of the program expenditures that were funded with other state, local or other nonfederal funds are excluded from the accompanying schedule.

Basis of Accounting

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

Schedule of Expenditures of Federal Awards

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

Relationship to Financial Statements

In accordance with the Governmental Accounting Standards Board's Statement Nos. 61 and 39, activities relating to all federal financial assistance programs are blended in the City's financial statements as special revenue funds.

Relationship to Federal Financial Reports

Grant expenditure reports as of June 30, 2015, which have been submitted to grantor agencies, will, in some cases, differ from amounts disclosed herein. The reports for grantor agencies are typically prepared at a later date and often reflect refined estimates of the year-end accruals.

NOTE 2 MAJOR PROGRAMS

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

Community Development Block Grant	CFDA #14.218
Home Investment Partnerships Program	CFDA #14.239
State and Community Highway Safety	CFDA #20.600
Aging Cluster:	
Special Programs for the Aging, Title III, Part B (Grants for Supportive Services and Senior Centers)	CFDA #93.044
Special Programs for the Aging, Title III, Part C Nutrition Services	CFDA #93.045
Nutrition Services Incentive Program	CFDA #93.053

NOTE 3 FEDERAL CLUSTERS OF PROGRAMS

The following table summarizes the expenditures of federal program clusters included in the schedule of expenditures of federal awards:

	<u>CFDA</u> <u>number</u>	<u>Expenditures</u>
Aging Cluster		
Special Programs for the Aging, Title III, Part B (Grants for Supportive Services and Senior Centers)	93.044	\$ 52,020
Special Programs for the Aging, Title III, Part C (Nutrition Services)	93.045	134,718
Nutrition Services Incentive Program	93.053	<u>12,895</u>
		<u>\$ 147,613</u>

NOTE 4 PAYMENTS TO SUBRECIPIENTS

Subrecipient grants provided during the year and the related payments to subrecipients are as follows:

Community Development Block Grant - Entitlement Grants	\$ 45,890
Emergency Shelter Grant	<u>66,648</u>
Total	<u>\$ 112,538</u>

Section I – Summary of Auditors’ Results

Financial Statements

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

Internal control over financial reporting:

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

Home Investment Partnerships Program – Unmodified
 Community Development Block Grant – Unmodified
 State and Community Highway Safety - Unmodified
 Aging Cluster – Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133? Yes – F2015.001 to F2015.006

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
14.239	Home Investment Partnerships Program (HOME)
20.600	State and Community Highway Safety
	Aging Cluster:
93.044	Special Programs for the Aging Title III, Part B (Grants for Supportive Services and Senior Centers)
93.045	Special Programs for the Aging, Title III, Part C Nutrition Services
93.053	Nutrition Services Incentive Program

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 2015-001: 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, 2015, an annual budget was not adopted for the following special revenue funds of the City

- Special Revenue Funds:
 - Affordable Housing
 - Park Bond Act
 - Mountain View Community Facilities District

There were also expenditures that exceeded appropriations at the department level as disclosed in the notes to financial statements. In addition, the City budgeted expenditures in amounts exceeding revenues and available fund balances, resulting in a budgeted fund deficit for the following special revenue funds:

	Amount Budgeted Expenditures (Exceeded) Revenues
Transportation Development Act Fund	\$ (70,900)
Children's Lunch Program	(1,000)
Storm Drain	(106,000)
Miscellaneous Grants	(292,698)

This practice constitutes noncompliance with the Municipal Code and is considered noncompliance reportable under *Government Auditing Standards*.

Recommendation

We recommend that the City comply with the requirements of the Code and ensure that an annual budget is adopted for all the funds of the City. Further, control procedures should be implemented to ensure adherence to the approved budget, which may include periodic budgetary reviews and formal budget amendment processes as appropriate.

Management Response and Planned Corrective Action

Each of the special revenue funds without an annual budget adopted were new funds established during the fiscal year. Each was established with appropriate actions of the City Council. While each had approved plans for the year, no formal budget was entered into the accounting records. Management will ensure budgets are entered into the accounting records for newly established funds in the future.

The reasons appropriations exceeded estimated revenues in each of the above funds vary and include a case where underlying work papers rounded estimated revenues down and appropriations up and a case where known revenues simply were not formalized into the budget. Management has taken steps to rectify these occurrences in the future. The Fiscal Year 2015-16 budget was prepared using a “zero-based” budgeting approach.

Section III – Federal Award Findings

Finding F2015-001 – 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-14-MC-06-0517 – FY 14-15

Criteria or Specific Requirement

Code of Federal Regulations, 24 CFR 570.504 sets forth the requirements for the administration, accounting, reporting and disposition of program income generated by Community Development Block Grant (CDBG) program activities. These requirements include the proper reporting of such income and the disposition of program income either by returning it to the grantor or by spending the funds on approved program activities. There are limits restricting the amount of program income that can be retained, and procedures to be used to obtain approval for the spending of these monies. Accordingly, the grantee must accurately account for any program income generated from the use of CDBG funds, and treat such income as additional CDBG funds which are subject to all program rules.

Condition Found

During our testing of the CDBG program income, we noted that program income of \$411,229 reported to the Department of Housing and Urban Development (HUD) in the federal nationwide database, Integrated Disbursement and Information System (IDIS) for fiscal year 2015 was different from the balance recorded in the general ledger of \$415,949. The difference of \$4,720 pertains to allocated interest income to the CDBG program that was recorded in the City's general ledger but unreported in IDIS. Furthermore, prior year program income amounting to \$21,174 remained unreported in IDIS.

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. Unreported program income may result in excess funds being improperly retained, and inaccurate reporting to grantor agencies, and susceptibility to fines and penalties imposed by the grantor.

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 of El Monte is finalizing its recruitment for a Grants Compliance Specialist. This staff member will receive training in IDIS provided by the U.S. Department of Housing and Urban Development to ensure the proper reporting of program income. Housing staff will continue to schedule Quarterly Meetings with the Finance Department to confirm that program income is properly recorded in IDIS and is in agreement with the City's financial system.

Finding F2015-002–Reporting

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-14-MC-06-0517 – FY 14-15

Criteria or Specific Requirement

Title 24: Housing and Urban Development, Part 91 – Consolidated Submissions for Community Planning and Development Programs,

Subpart A- General, Section 91.15 Submission date (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. With the exception of the August 16 date noted in paragraph (a)(2) of this section, HUD may grant a jurisdiction an extension of the submission deadline for good cause.

Subpart F – Other General Requirements, section 91.52 (a) – Performance reports, states that each jurisdiction that has an approved consolidated plan shall annually review and report, in a form prescribed by HUD, on the progress it has made in carrying out its strategic plan and its action plan. The performance report must include a description of the resources made available, the investment of available resources, the geographic distribution and location of investments, the families and persons assisted (including the racial and ethnic status of persons assisted), actions taken to affirmatively further fair housing, and other actions indicated in the strategic plan and the action plan. This performance report shall be submitted to HUD within 90 days after the close of the jurisdiction's program year.

Part 135 – Economic Opportunities for Low- and Very Low-income Persons, Subpart E – Reporting and Recordkeeping, Section 135.90 Reporting states that each recipient which receives directly from HUD financial assistance that is subject to the requirements of this part shall submit to the Assistant Secretary an annual report in such form and with such information as the Assistant Secretary may request, for the purpose of determining the effectiveness of section 3. Where the program providing the section 3 covered assistance requires submission of an annual performance report, the section 3 report will be submitted with that annual performance report. If the program providing the section 3 covered assistance does not require an annual performance report, the section 3 report is to be submitted by January 10 of each year or within 10 days of project completion, whichever is earlier. All reports submitted to HUD in accordance with the requirements of this part will be made available to the public.

Condition Found

During our audit of the City's compliance with the CDBG reporting requirements, we noted the following:

- The Consolidated Annual Action Plan was submitted on July 10, 2014, which was fifty-six days past the due date of May 15, 2014.
- the HUD 60002, Section 3 Summary Report, Economic Opportunities for Low and Very Low-Income Persons, Report and the Consolidated Annual Performance and Evaluation Report (CAPER) for FY 2014-2015 were not submitted as of December 23, 2015, which was eighty four days past the due date of September 30, 2015.

Possible Asserted Cause and Effect

The City did not have adequate monitoring controls in place to ensure that required reports are timely submitted to the Department of Housing and Urban Development.

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

The City Housing Department is strengthening control to ensure reports are timely submitted to HUD. Additional desk procedures have been implemented that require Housing staff to submit HUD reports for Council consideration 60 days prior to the due date of the report. This is expected to ensure that sufficient time is allowed to answer questions, make any required changes, and submit timely reports which are in compliance with all grant reporting requirements.

Finding F2015-003 – Subrecipient Monitoring

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-14-MC-06-0517 – FY 14-15

Criteria or Specific Requirement

A pass-through entity is responsible for 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 performance goals are achieved.

Condition Found

During our audit, we noted that the City did not perform an annual monitoring and review for its subrecipient during FY 2014-15.

Possible Asserted Cause and Effect

Noncompliance of the above requirements may result in subrecipient compliance deficiencies not properly identified by the City, communicated to the agencies and corrected by the subrecipients.

Questioned Costs

Not applicable.

Recommendation

We recommend that the City establish and implement stricter controls and procedures to ensure that the above subrecipient compliance requirements are performed to comply with the funding terms and conditions.

Views of Responsible Officials and Planned Corrective Action

City staff did not conduct an annual onsite visit of sub-recipients during FY 2014-15. However, staff performed remote monitoring and review of its sub-recipients through the receipt and review of quarterly performance reports to ensure regulatory compliance with CDBG Program guidelines.

The City of El Monte is also finalizing its recruitment for a Senior Housing Program Coordinator. This staff member will receive training provided by the U.S. Department of Housing and Urban Development on sub-recipient monitoring. Some responsibilities of this position will be to conduct onsite monitoring of sub-recipients, review financial reports, and review performance reports to ensure that activities are completed in accordance with the sub-recipient contract and in compliance with Federal Regulations. This activity will be documented by the City, and any deficiencies properly and promptly communicated to the sub-recipient.

Finding F2015-004 – Program Income

Federal Program Information

<i>Federal Catalog Number:</i>	14.239
<i>Federal Program Name:</i>	Home Investment Partnerships Program (HOME)
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number:</i>	B-13-MC-06-0509 – FY 13-14

Criteria or Requirement

Code of Federal Regulations, 24 CFR 92.503 (a) sets forth the requirements for the administration, accounting, reporting and disposition of program income generated by Home Investment Partnerships Program (HOME) activities, and states that program income must be deposited in the participating jurisdiction's HOME Investment Trust Fund local account unless the participating jurisdiction permits the State recipient or subrecipient to retain the program income for additional HOME projects pursuant to the written agreement required by §92.504. Federal requirements generally require the proper reporting of program income and the disposition of program income either by returning it to the grantor or by spending the funds on approved program activities. There are limits restricting the amount of program income that can be retained, and procedures to be used to obtain approval for the spending of these monies. Accordingly, the grantee must accurately account for any program income generated from the use of HOME funds, and treat such income as additional HOME funds which are subject to all program rules.

Condition Found

During our review of the HOME program income, we noted that the City reported program income amounting to \$1,492,845 for the fiscal year. This includes \$1,279,586 of proceeds from sale of an affordable housing project, which the City and its CHDO determined to be no longer viable and cannot be completed as a HOME-eligible project. The City wired to HUD \$500,777 and the remaining proceeds were retained by the City in its HOME revenue account to be used to support other eligible HOME and/or CHDO Reserve activities subject to further instructions and approval from HUD. The remaining FY 2014-2015 program income of \$213,259 consisting of interest income, rental income and loan repayment revenue and FY 2013-2014 program income amounting to \$42,183, however, were not reported to the Department of Housing and Urban Development (HUD) in the federal nationwide database Integrated Disbursement and Information System (IDIS). Furthermore, the City did not make any drawdown to reimburse expenditures and report program income to off-set amounts to be reimbursed from HUD through IDIS during FY 2014-2015.

Possible Asserted Cause and Effect

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

Questioned costs

Not applicable\

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions

The City of El Monte is finalizing its recruitment for a Grants Compliance Specialist. This staff member will receive training in IDIS provided by the U.S. Department of Housing and Urban Development to ensure the proper reporting of program income. Housing staff will continue to schedule Quarterly Meetings with the Finance Department to confirm that program income is properly recorded in IDIS and is in agreement with the City's financial system.

Finding F2015-005 – Period of Performance

Federal Program Information

<i>Federal Catalog Number:</i>	14.239
<i>Federal Program Name:</i>	Home Investment Partnerships Program (HOME)
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number:</i>	B-13-MC-06-0509 – FY 13-14

Criteria or Requirement

Title 24: Housing and Urban Development, Part 92 – Home Investment Partnerships Program,

Subpart E – Program Requirements, Section 92.205 e (1) Terminated projects -

If a participating jurisdiction does not complete a project within 4 years of the date of commitment of funds, the project is considered to be terminated and the participating jurisdiction must repay all funds invested in the project to the participating jurisdiction's HOME Investment Trust Fund in accordance with §92.503(b). The participating jurisdiction may request a one-year extension of this deadline in writing, by submitting information about the status of the project, steps being taken to overcome any obstacles to completion, proof of adequate funding to complete the project, and a schedule with milestones for completion of the project for HUD's review and approval.

Subpart K – Program Administration, Section 92.500 – The HOME Investment Trust Fund (d)(1)(B) Reductions.

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

Condition Found

During our testing of the City's compliance with period of performance requirements, we noted that HOME allocations for 2013 grant funds were subject to recapture by HUD totaling \$268,849. These funds were not committed and spent during the required 2-year period. In addition, \$1,338,045 (including \$593,063 committed funds) of HOME allocation was not disbursed within 4 years.

Effect

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

Questioned costs

Not applicable.

Recommendation

We recommend that the City implement stricter control to ensure that HOME funds are committed within the required 2-year period to prevent recapture of grant funds by HUD.

Views of Responsible Officials and Planned Corrective Actions

Many of the Housing Department functions had been handled by outside contractors prior to FY 2014-15. The Housing Division has committed to complying with all requirements of the HOME program in the future and is working closely with its HUD representative to determine and remit amounts which may be due back to HUD. The City has also taken steps to hire permanent staff that will provide consistency and continued management of program activities to ensure completion prior to the expiration of the funds. This will include the establishment of project milestones and periodic reviews with the project team.

Finding F2015-006–Reporting

Federal Program Information

<i>Federal Catalog Number:</i>	14.239
<i>Federal Program Name:</i>	Home Investment Partnerships Program (HOME)
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number and Award Year:</i>	B-13-MC-06-0509 – FY 13-14

Criteria or Specific Requirement

Title 24: Housing and Urban Development, Part 91 – Consolidated Submissions for Community Planning and Development Programs,

Subpart A- General, Section 91.15 Submission date (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. With the exception of the August 16 date noted in paragraph (a)(2) of this section, HUD may grant a jurisdiction an extension of the submission deadline for good cause.

Subpart F – Other General Requirements, section 91.52 (a) – Performance reports, states that each jurisdiction that has an approved consolidated plan shall annually review and report, in a form prescribed by HUD, on the progress it has made in carrying out its strategic plan and its action plan. The performance report must include a description of the resources made available, the investment of available resources, the geographic distribution and location of investments, the families and persons assisted (including the racial and ethnic status of persons assisted), actions taken to affirmatively further fair housing, and other actions indicated in the strategic plan and the action plan. This performance report shall be submitted to HUD within 90 days after the close of the jurisdiction's program year.

Part 135 – Economic Opportunities for Low- and Very Low-income Persons, Subpart E – Reporting and Recordkeeping, Section 135.90 Reporting states that each recipient which receives directly from HUD financial assistance that is subject to the requirements of this part shall submit to the Assistant Secretary an annual report in such form and with such information as the Assistant Secretary may request, for the purpose of determining the effectiveness of section 3. Where the program providing the section 3 covered assistance requires submission of an annual performance report, the section 3 report will be submitted with that annual performance report. If the program providing the section 3 covered assistance does not require an annual performance report, the section 3 report is to be submitted by January 10 of each year or within 10 days of project completion, whichever is earlier. All reports submitted to HUD in accordance with the requirements of this part will be made available to the public.

Condition Found

During our audit of the City's compliance with the CDBG reporting requirements, we noted the following:

- The Consolidated Annual Action Plan was submitted on July 10, 2014, which was fifty-six days past the due date of May 15, 2014.
- the HUD 60002, Section 3 Summary Report, Economic Opportunities for Low and Very Low-Income Persons, Report and the Consolidated Annual Performance and Evaluation Report (CAPER) for FY 2014-2015 were not submitted as of December 23, 2015, which was eighty-four days past the due date of September 30, 2015.

Possible Asserted Cause and Effect

The City did not have adequate monitoring controls in place to ensure that required reports are timely submitted to the Department of Housing and Urban Development.

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

The City Housing Department is strengthening control to ensure reports are timely submitted to HUD. Additional procedures have been implemented that require Housing staff to submit HUD reports for Council consideration 60 days prior to the due date of the report. This is expected to ensure that sufficient time is allowed to answer questions, make any required changes, and submit timely reports which are in compliance with all grant reporting requirements.

City of El Monte
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2015

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
Financial Statement Findings				
FS 2014-001	Financial Statements Reported in Accordance with Government Standards - Year-end Closing Process	<p>We recommend the City expedite the process of employing a Controller or an Accounting Manager to assume responsibility for ensuring that key internal control processes are implemented including timely update of subsidiary records and reconciliation of account balances, proper recording of transactions, and timely closing of the books.</p> <p>We further recommend that the City of El Monte strengthen, expand and document closing and account reconciliation procedures. Such procedures will provide assurance that transactions occurring throughout the year are properly recorded and monitored, and improve the reliability of the annual financial statements.</p> <p>We also recommend a policy to be adopted whereby all journal entries are to be reviewed and approved by the Finance Director, Controller or other designated, qualified member of management. All entries should be initialed by the preparer and the individual approving them in order to attribute proper review and responsibility to the appropriate individuals.</p>	Implemented	Not applicable

City of El Monte
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2015

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
FS 2014-002	Financial Statements Reported in Accordance with Government Budgets and Appropriation	We recommend that the City comply with the requirements of the Code and ensure that an annual budget is adopted for all the funds of the City. Further, control procedures should be implemented to ensure adherence to the approved budget, which may include budgetary reviews and formal budget amendment processes as appropriate.	Partially implemented	See current year finding FS 2015.001
Federal Award Findings				
F 2014-001	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. The actual time and effort that employees spend on grant-financed activities should be properly documented to support salaries charged to the program.	Implemented	Not applicable
F 2014-002	Community Development Block Grants/Entitlement Grants – Program Income	The City should review its current procedures over recording and reporting of program income to ensure timely and accurate reporting.	Partially implemented	See current year finding F-2015.001
F 2014-003	Community Development Block Grants/Entitlement Grants - 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-2015.002

City of El Monte
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2015

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
F 2014-004	Home Investment Partnerships Program (HOME) - 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. The actual time and effort that employees spend on grant-financed activities should be properly documented to support salaries charged to the program.	Implemented	Not applicable.
F 2014-005	Home Investment Partnerships Program (HOME) - Special Tests and Provisions	We recommend that the City of El Monte implement stricter controls to ensure that on-site inspections of rental housing occupied by tenants receiving HOME-assisted-tenant-based rental assistance are performed to determine compliance with housing quality standards.	Implemented	Not applicable
F 2014-006	Home Investment Partnerships Program (HOME) - Program Income	The City should improve coordination between the Finance Department and program management personnel and review its current procedures over reporting of program income to ensure timely reconciliation and accurate reporting.	Not Implemented	See current year finding F-2015.004

City of El Monte
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2015

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
F 2014-007	Home Investment Partnerships Program (HOME) - Period of Availability	We recommend that the City implement stricter controls to ensure that HOME funds are committed within the required 2-year period.	Not implemented	See current year finding F-2015-005
F 2014-008	Home Investment Partnerships Program (HOME) - 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-2015.006
F 2014-009	Federal Asset Forfeiture Program - Reporting	The City should review its current procedures over financial and program reporting to ensure timely and accurate submission of the required report.	Implemented	Not applicable

City of El Monte
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2015

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
F 2014-010	Federal Asset Forfeiture Program – Equipment Management – Policies and Procedures	We recommend that the City strengthen policies and procedures to ensure that Federal property management regulations are followed. These policies should include appropriate identification, tracking, physical inventories, and reconciliations to promote accurate reporting and reduce the risk of misappropriation of program assets.	Partially implemented	The property records maintained by the City did not include who holds title, use and condition of the property, and fixed assets that were disposed (including their disposal date and sale price). The City subsequently provided the required information from records supplemental to its computerized property management system (CPMS). The title to all Assets is held by the City or its affiliates or departments if they have been entered into the CPMS. The CPMS already indicates the condition of assets at their purchase date (new, used, refurbished etc.) The city will take steps to: 1) Determine if current condition of the assets can be notated and updated in the CPMS; 2) Place all other required information into the CPMS, and; 3) Maintain a current supplemental record for those items that cannot be entered into the CPMS.



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