



City of El Monte, California
Single Audit Report
As of and for the Year Ended June 30, 2016
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 the City Council
City of El Monte
El Monte, California 91731

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 (City), as of and for the year ended June 30, 2016, 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 22, 2016.

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. 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 that is described in the accompanying schedule of findings and questioned costs as Finding FS 2016.001.

We noted certain other matters that we reported to management of the City of El Monte in a separate letter dated December 22, 2016.

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 City'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.

Vasquez + Company LLP

**Los Angeles, California
December 22, 2016**

**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 the Uniform Guidance**

**The Honorable Mayor and Members of the City Council
City of El Monte, California**

Report on Compliance for Each Major Federal Program

We have audited the City of El Monte, California's (City) compliance with the types of compliance requirements described in the *OMB 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, 2016. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City'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 the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 20, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 programs occurred. An audit includes examining, on a test basis, evidence about the City'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 the City's compliance.

Opinion on Each Major Federal Programs

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2016.



Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Findings F 2016-001 through F 2016-007. Our opinion on each major federal program is not modified with respect to these matters.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City'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 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 the City'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 its major federal programs and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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'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 the deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding F-2016-001, through F-2016-007 that we consider to be significant deficiencies.

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



Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the government 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 22, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Vasquez + Company LLP

Los Angeles, California

December 22, 2016

City of El Monte
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity/ Grantor's Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Award Expenditures</u>
U.S. Department of Agriculture				
Passed through the State of California,				
Department of Education:				
Summer Food Service Program for Children	10.559	8190-5V	\$ -	\$ 73,406
Total U.S. Department of Agriculture			<u>-</u>	<u>73,406</u>
U.S. Department of Housing and Urban Development				
Direct Assistance:				
Community Development Block Grant Program				
Entitlement Grant	14.218	Various	18,000	2,652,314 *
Emergency Shelter Grant	14.231	Various	273,986	295,608 *
Total U.S. Department of Housing and Urban Development			<u>291,986</u>	<u>2,947,922</u>
U.S. Department of Justice				
Direct Assistance				
Federal Asset Forfeiture Program	16.992	CA0192200	-	1,170,112
Edward Byrne Memorial Justice Assistance Grant	16.738	2012-DI-BX-1177	-	52,528
Edward Byrne Memorial Justice Assistance Grant	16.738	2014-DJ-BX-0571	-	8,752
Total U.S. Department of Justice			<u>-</u>	<u>1,231,392</u>
U.S. Department of Transportation				
Direct Assistance				
Rosemead - Telstar Intersection	20.600	HPLUL-5210(14)	-	11,180
Passed through State of California,				
Office of Traffic Safety:				
State and Community Highway Safety				
OTS Grant	20.600	PT 1624	-	121,144
OTS STEP Selective Traffic Enforcement Program	20.600	PT 15124	-	53,952
Total U.S. Department of Transportation			<u>-</u>	<u>186,276</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	SSP-141806	-	47,640
Special Programs for the Aging, Title III, Part C Nutrition Services	93.045	ENP-1216-006	-	125,022
Nutrition Services Incentive Program	93.053	ENP-1216-006	-	12,814
Total U.S. Department of Health and Human Services			<u>-</u>	<u>185,476</u>
Total Expenditures of Federal Awards			<u>\$ 291,986</u>	<u>\$ 4,624,472</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 of expenditures of federal awards (the Schedule) presents the activity of all federal award programs of the City of El Monte, California (City). For purposes of this schedule, financial awards include federal awards received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portions of program expenditures reimbursable with federal funds are reported in the accompanying schedule. Program expenditures in excess of the maximum reimbursement authorized, if any, or the portion of the program expenditures that were funded with other state, local or other non-federal funds are excluded from the accompanying schedule.

The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City.

Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting, which is defined in Note 1 to the City's basic financial statements. 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.

The City has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 2 RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Grant expenditure reports as of June 30, 2016, which have been submitted to grantor agencies, will, in some cases, differ from amounts disclosed herein. The reports prepared for grantor agencies are typically prepared at a later date and often reflect refined estimates of the year-end accruals.

NOTE 3 RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

In accordance with the Governmental Accounting Standards Board's Statement No. 61, *Financial Reporting Entity* and 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.

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?	None reported
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	Yes
Type of auditors’ report issued on compliance with respect to major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of the Uniform Guidance	Yes (2016-001 through 2016-007)

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
14.231	Emergency Shelter Grant

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as a low-risk auditee?	No

Section II – Financial Statement Findings

FS 2016-001: 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, 2016, there were expenditures that exceeded appropriations at the department level as disclosed in the notes to financial statements for the following function of the General Fund:

	Expenditures	Appropriations	Excess
General government			
City attorney	\$ 1,574,019	\$ 1,300,000	\$ (274,019)

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 fund:

	Amount Budgeted Expenditures (Exceeded) Revenues
Special Revenue Funds:	
MTA Call for Projects	\$ (7,925,400)

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

This is a repeat finding from fiscal year 2015 audit (Finding FS 2015-001).

Recommendation

We recommend that the City comply with the requirements of the Code and implement control procedures 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

The City anticipates reimbursements for a portion of these legal costs will be received greater than this excess. Capital Projects estimated revenues and expenditures are identified in the City’s Capital Improvement Program during the budget process. Budget adjustments, as needed, are approved throughout the year. Procedures have been implemented to ensure all fund budgets contain all appropriate funding sources.

Section III – Federal Award Findings

F-2016-001: Allowable Costs/Cost Principles - Time and Effort Reporting

<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-15-MC-06-0517 – FY 15-16

Criteria

Total salaries charged to Federal awards (including extra service pay) are subject to the Standards of Documentation as described by 2 CFR §200.430(i). Per this section, salaries and wages charged to Federal awards must be based on records that accurately reflect the work performed. These records must:

- Be incorporated into the organization's official records;
- Reasonably reflect the total activity for which the employee is compensating across all grant-related and non-grant related activities (100% effort);
- Support the distribution of employee salary across multiple activities or cost objectives (for example, effort spent on multiple federal awards, spent on general/or administrative activities, vacation, sick leave, leave without pay, etc.); and
- Utilize an "after-the-fact" review of the employee's actual hours worked during the reporting period for identifying and correcting significant changes (as defined by the organization's written policies).

Condition

We determined the City did not comply with federal requirements for direct payroll charges. Payroll costs for all three employees tested were allocated to programs based on percentages provided by management. These allocations were not supported by approved time samples or updated cost allocation methods/plan, nor were they reconciled to actual time spent on the various programs. Employee timesheets did not record the actual labor efforts expended on this grant.

Cause

The City did not have policies and procedures for ensuring employees' compensation charged to federal programs was supported by contemporaneous time record or an after-the-fact distribution of employees' actual time and effort expended on federal program activities.

Effect

The City did not comply with the program's requirements for allowable costs. There is an increased risk that employees' compensation charged to the program may not have represented an actual time and effort expended on the program's activities.

Questioned Costs

\$1,176 for all 3 samples tested. Total salaries and benefits charged to the program was \$402,392.

Recommendation

We recommend the City comply with federal regulation requiring that any employee funded by federal grant document the actual time they spend working on the grant's objectives. Documentation must reflect "actual" time spent by employees on awards being charged. The City should develop and implement policies and procedures that ensure that employees' compensation charged to federal programs reflect a contemporaneous or after-the-fact distribution of employees' actual time and effort expended on federal programs.

Views of Responsible Officials and Planned Corrective Action

The City implemented KRONOS, a new timekeeping system. The City is strengthening its policies and procedures by developing a system for accurately recording actual time spent by employees charged to various city programs and activities including those funded by grants. The new system will include job codes specific to CDBG, HOME, and ESG programs and/or activities for reporting the employees' actual time and effort spent working on federal programs separate from other job duties. The draft time documenting system has been discussed and developed with the assistance of the City's HUD CPD Representative and has been submitted and pending HUD's approval. Upon approval by HUD, the new system will be utilized Citywide for all employees working on federally funded programs through HUD.

F 2016-002: Subrecipient Monitoring

<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-15-MC-06-0517 – FY 15-16

Criteria:

OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR 200) ("Uniform Guidance"), specifically §200.331, requires pass-through entities to evaluate each subrecipient's risk of noncompliance in order to determine the appropriate monitoring level, monitor the activities of subrecipient organizations to ensure that the subaward is in compliance with applicable federal statutes and regulations and terms of the subaward, and verify that subrecipients are audited as required by Subpart F of the Uniform Guidance.

As set forth in the Uniform Guidance (2 CFR 200.331), the City must ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward. If any of these data elements change, the City must include the changes in a subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. Required information includes:

(1) Federal Award Identification.

- (i) Subrecipient name (which must match the name associated with its unique entity identifier);
- (ii) Subrecipient's unique entity identifier;
- (iii) Federal Award Identification Number (FAIN);

- (iv) Federal Award Date (see §200.39 Federal award date) of award to the recipient by the Federal agency;
- (v) Subaward Period of Performance Start and End Date;
- (vi) Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient;
- (vii) Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation;
- (viii) Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;
- (ix) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
- (x) Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity;
- (xi) CFDA Number and Name; the pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement;
- (xii) Identification of whether the award is R&D; and
- (xiii) Indirect cost rate for the Federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs)

Condition

We tested the City's one subrecipient for compliance with the Uniform Guidance subrecipient monitoring requirements and noted the following:

- The City does not have written policies and procedures related to subrecipient monitoring.
- The City does not have documentation of its evaluation or assessment of subrecipient's risk of noncompliance.
- The City does not have adequate monitoring procedures in place to ensure that the subrecipient complies with the program requirements. The City did not perform an annual monitoring visit and review of program activities for its subrecipient during fiscal year 2015-2016.
- The City does not have a process in place to obtain the Single Audit reports for eligible subrecipients and consequently they are not able to review the report as necessary to assess risk of noncompliance or to follow up on any prior findings.
- The subrecipient agreement did not include the following subaward information: subrecipient's unique entity identifier, federal award identification number, date of award to the recipient by the Federal agency, CFDA number and name.

This is a repeat finding from fiscal year 2015 audit (Finding F2015-003).

Cause

Procedures and controls were not properly implemented to comply with federal compliance requirements on subrecipient monitoring. In addition, the City personnel responsible for creating the subrecipient agreement were not aware of the subrecipient information requirements.

Effect

Noncompliance with the above requirements may result in subrecipient compliance deficiencies not being 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. In addition, the City should ensure that all required information is identified and communicated to the subrecipient at the time the subaward is granted.

Views of Responsible Officials and Planned Corrective Action

The City's Housing staff did not conduct an annual onsite visit of sub-recipients during the FY 2015-2016. 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. In addition, the staff is in the process of conducting desk and on-site monitoring of its sub-recipients with a scheduled completion of March 2017.

The City has hired a Housing Manager and a Senior Housing Program Coordinator to establish and implement timelines and appropriate checklists needed for the monitoring of sub-recipients activities by the Housing Department to ensure compliance with the City and HUD regulations. The City is also finalizing its recruitment for a Program Coordinator. All staff members will receive on-going training provided by HUD on sub-recipient monitoring and will be responsible for conducting on-site monitoring, review financial records, and review performance reports. The City is completing its CDBG Policy and Procedure Manual to include strict measures for monitoring of program sub-recipients in accordance with the federal regulations. The policies and procedures will also serve as a guide for program subrecipients adherence to the established policies and procedures will be made a part of the contract agreement with all subrecipients.

F 2016-003: Reporting

<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-15-MC-06-0517 – FY 15-16

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 Federal Financial Reports (SF-425) for quarters ending, September 30, 2015 and March 31, 2016, were submitted on December 13, 2016, which was four hundred and ten (410) and two hundred twenty seven (227) days past the due dates of October 30, 2015 and April 30, 2016, respectively.
- The HUD 60002, Section 3 Summary Report, Economic Opportunities for Low and Very Low-Income Persons, Report for FY 2015-2016 was submitted on December 12, 2016, which was seventy three days past the due date of September 30, 2016. This is a repeat finding from fiscal year 2015 audit (Finding 2015-002).

Cause

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.

Effect

Untimely submission of required reports will result in noncompliance with the grant and funding agreement.

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 has identified the past structural problems that led to this failure to report and have taken steps to ensure they do not recur. The City of El Monte has hired a Principal Accountant-Grants. This staff will receive on-going training in IDIS provided by HUD to ensure the proper reporting of program income. In addition, beginning in August of the FY 16-17, a City taskforce consisting of the City Manager, Finance Director, Economic Development Director, and staffs from the Finance and Economic Development Department, meets regularly to review program activities. The taskforce has also implemented a quarterly review for the reconciliation of the various funds, completion of all drawdown for the quarter, and completion of activity reporting in IDIS. To address such compliance issues, the City team has systematically created and has obtained approval for new policies and procedures to be adopted and instituted which include strict measures for the submittal of timely reports in accordance with the federal regulations. This team investigated the problems that led to prior failures to report and is committed to accurate reporting moving forward.

F 2016-004: Allowable Costs/Cost Principles

<i>Federal Catalog Number:</i>	14.231
<i>Federal Program Name:</i>	Emergency Shelter Grant
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number and Award Year:</i>	E-15-MC-06-0517 – FY 15-16

Criteria:

2 CFR Part 225, Appendix A, Part C Basic Guidelines, (1) Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: (J) be adequately documented.

Condition

During our test of controls and compliance over allowable costs, we noted that 2 out of 7 ESG program expenditures tested were not adequately supported. These were payments made to the City's subrecipient included in the drawdown requests. The program disbursements tested were not supported by the underlying invoice documentation. The City could not provide documentation to support the accuracy of the program expenditure. Hence, the auditor is unable to reconcile the total amount of expenditures claimed with the underlying support.

Cause

The City did not have adequate monitoring controls in place to ensure proper documentation of expenditures charged to the program. Without proper documentation, these expenditures may be considered unallowable costs.

Effect

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

Questioned Costs

\$872 of the 7 samples selected totaling to \$1,473.

Recommendation

We recommend that the City strengthen its controls over program disbursement records and implement procedures to ensure all program disbursements are accurately and adequately supported by accompanying documentation. Management should review the documentation to ensure that the amount being requested is accurate and properly supported.

Views of Responsible Officials and Planned Corrective Action

The City Housing Department has obtained approval of an ESG Policy and Procedure Manual for compliance with federal, state and local regulations. The Manual was approved by City Council. These established policies and procedures clearly address 2 CFR 200, Uniform Administrative Requirements emphasizing specific documentation from subrecipients to address invoices, and backup documentation between FMR and rents paid. In addition, the subrecipient agreements are being revised to specifically comply with ESG regulations. The ESG Policies and Procedures have recently been submitted to HUD for review and approval.

F 2016-005: Reporting

<i>Federal Catalog Number:</i>	14.231
<i>Federal Program Name:</i>	Emergency Shelter Grant
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number and Award Year:</i>	E-15-MC-06-0517 – FY 15-16

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 ESG reporting requirements, we noted the following:

- The Federal Financial Reports (SF-425) for quarters ending, September 30, 2015, December 31, 2015, and March 31, 2016, were all submitted on December 13, 2016, which were four hundred and ten (410), three hundred eighteen (318) and two hundred twenty seven (227) days past the due dates of October 30, 2015, January 30, 2016 and April 30, 2016.
- The HUD 60002, Section 3 Summary Report, Economic Opportunities for Low and Very Low-Income Persons. Report for FY 2015-2016 was submitted as of December 12, 2016, which was seventy three days past the due date of September 30, 2016.

Cause

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.

Effect

Untimely submission of required reports will result in noncompliance with the grant and funding agreement.

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 Division has completed the establishment of a written HOME and ESG Policy and Procedure Manual and is in the process of finalizing the a CDBG Policy and Procedure Manual in compliance with federal requirements and to guide local implementation of federally funded programs. The HOME and ESG policy and procedure manuals have been reviewed and adopted by the City Council. The HOME Policy and Procedure Manual has been submitted to and is pending HUD's approval. The ESG Policy and Procedure Manual has recently been submitted to HUD. These Policy and Procedure Manuals address specifically, among other federal requirements, the 2 CFR 200, Uniform Administrative Requirements. The policies and procedures will serve as a guide for program subrecipients and adherence to the established policies and procedures will made a part of the contract agreement with all subrecipients.

F 2016-006: Subrecipient Monitoring and Management

<i>Federal Catalog Number:</i>	14.231
<i>Federal Program Name:</i>	Emergency Shelter Grant
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number and Award Year:</i>	E-15-MC-06-0517 – FY 15-16

Criteria:

OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR 200) (“Uniform Guidance”), specifically §200.331, requires pass-through entities to evaluate each subrecipient's risk of noncompliance in order to determine the appropriate monitoring level, monitor the activities of subrecipient organizations to ensure that the subaward is in compliance with applicable Federal statutes and regulations and terms of the subaward, and verify that subrecipients are audited as required by Subpart F of the Uniform Guidance.

As set forth in the Uniform Guidance (2 CFR 200.331), the City must ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward. If any of these data elements change, the City must include the changes in the subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. Required information includes:

(1) Federal Award Identification.

- (i) Subrecipient name (which must match the name associated with its unique entity identifier);
- (ii) Subrecipient's unique entity identifier;
- (iii) Federal Award Identification Number (FAIN);
- (iv) Federal Award Date (see §200.39 Federal award date) of award to the recipient by the Federal agency;
- (v) Subaward Period of Performance Start and End Date;
- (vi) Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient;
- (vii) Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation;
- (viii) Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;
- (ix) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
- (x) Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity;
- (xi) CFDA Number and Name; the pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement;
- (xii) Identification of whether the award is R&D; and
- (xiii) Indirect cost rate for the Federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs)

Condition

We selected one (1) subrecipient for testing of compliance with the Uniform Guidance subrecipient monitoring requirements and with the City's subrecipient agreements and noted the following:

- The City does not have written policies and procedures related to subrecipient monitoring.
- The City does not have documentation of its evaluation or assessment of the subrecipient's risk of noncompliance.
- The City does not have adequate monitoring procedures in place to ensure that the subrecipient complies with the program requirements. Further the City cannot provide acceptable documentation of monitoring.
- The subrecipient agreement did not include the following subaward information: subrecipient's unique entity identifier, federal award identification number, date of award to the recipient by the Federal agency, CFDA number and name.

Cause

Procedures and controls were not properly implemented to comply with federal compliance requirements on subrecipient monitoring. In addition, the City personnel responsible for creating the subrecipient agreement were not aware of the subrecipient information requirements.

Effect

Noncompliance of the above requirements may result in subrecipient compliance deficiencies not being 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 adherence to the above subrecipient compliance requirements. In addition, the City should ensure that all required information is identified and communicated to the subrecipient at the time the subaward is granted.

Views of Responsible Officials and Planned Corrective Action

The City Housing staff did not conduct an annual onsite visit of sub-recipients during the FY 2015-2016. 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 ESG Program guidelines. In addition, the staff is in the process of conducting desk and on-site monitoring of its sub-recipients with a scheduled completion of March 2017.

The City has hired a Housing Manager and a Senior Housing Program Coordinator to establish and implement timelines and appropriate checklists needed for the monitoring of sub-recipients activities by the Housing Department to ensure compliance with the City and HUD regulations. The City is also finalizing its recruitment for a Program Coordinator. All staff members will receive on-going training provided by HUD on sub-recipient monitoring and will be responsible for conducting on-site monitoring, review financial records, and review performance reports.

The City Housing Department finalized the ESG Policies and Procedures for compliance with federal, state and local regulations and was approved by City Council. These policies and procedures include strict measures for monitoring of program sub-recipients in accordance with the federal regulations. The ESG Policies and Procedures have recently been submitted to HUD for review and approval. The policies and procedures will serve as a guide for program subrecipients and adherence to the established policies and procedures will be made a part of the contract agreement with all subrecipients.

F 2016-007: Special Tests and Provisions – Payment to Subrecipients

<i>Federal Catalog Number:</i>	14.231
<i>Federal Program Name:</i>	Emergency Shelter Grant
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Pass-Through Entity:</i>	N/A
<i>Federal Award Number and Award Year:</i>	E-15-MC-06-0517 – FY 15-16

Criteria:

The recipient must pay each subrecipient for allowable costs within 30 days after receiving the subrecipient's complete payment request. This requirement also applies to each subrecipient that is a unit of general purpose local government (24 CFR Section 576.203).

Condition

During our tests of controls and compliance over special tests and provisions pertaining to payments to subrecipients, we noted that all 6 subrecipient reimbursement requests tested were paid beyond the 30 day requirement.

Cause

The City personnel responsible for payment of the subrecipient's reimbursement requests were not aware of the 30 day requirement.

Effect

The City is not paying its subrecipients on a timely basis and is not in compliance with laws and regulations related to special test and provisions – payment to subrecipients.

Questioned Costs

Not Applicable

Recommendation

We recommend the City ensure that payments to subrecipients are made timely and in accordance with the federal requirements.

Views of Responsible Officials and Planned Corrective Action

The City Housing Department is strengthening controls to ensure sub-recipient expenditures are accurately documented and request for reimbursements are processed in compliance with HUD regulations. The City of El Monte has hired a Principal Accountant-Grants, a Housing Manager and a Senior Housing Program Coordinator to establish and implement these controls. Staff will receive on-going training provided by HUD to remain current in federal regulations. The City has also systematically created and has obtained approval for new policies and procedures to be adopted and instituted which include strict measures for the timely processing and payment of subrecipients invoice in accordance with the federal regulations.

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

Finding Reference	Condition	Current Status	Explanation if not fully implemented										
Financial Statement Findings													
FS 2015-001 – Budgets and Appropriations	<p>We noted that for the fiscal year ended June 30, 2016, an annual budget was not adopted for the following special revenue funds of the City</p> <p>Special Revenue Funds:</p> <ul style="list-style-type: none"> Affordable Housing Park Bond Act Mountain View Community Facilities District <p>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:</p> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: right;">Amount Budgeted Expenditures (Exceeded) Revenues</th> </tr> </thead> <tbody> <tr> <td>Transportation Development Act Fund</td> <td style="text-align: right;">\$ (70,900)</td> </tr> <tr> <td>Children's Lunch Program</td> <td style="text-align: right;">(1,000)</td> </tr> <tr> <td>Storm Drain</td> <td style="text-align: right;">(106,000)</td> </tr> <tr> <td>Miscellaneous Grants</td> <td style="text-align: right;">(292,698)</td> </tr> </tbody> </table> <p>This practice constitutes noncompliance with the Municipal Code and is considered noncompliance reportable under <i>Government Auditing Standards</i>.</p>		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)	Partially Implemented	<p>The City has included major projects from its Capital Improvement Program without including funding sources in the past. Additionally, budget adjustments have been approved without including funding sources. Procedures have been implemented to ensure budgets contain all appropriate funding sources.</p>
	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)												

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

Finding Reference	Condition	Current Status	Explanation if not fully implemented
Financial Statement Findings			
F 2015-001 – Community Development Block Grants/Entitlement Grants – Program Income	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.	Implemented	Not applicable.
F 2015-002 – Community Development Block Grants/Entitlement Grants – Reporting	<p>During our audit of the City’s compliance with the CDBG reporting requirements, we noted the following:</p> <ul style="list-style-type: none"> • 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, <u>Economic Opportunities for Low and Very Low-Income Persons, Report</u> and the <u>Consolidated Annual Performance and Evaluation Report (CAPER)</u> 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. 	Partially implemented	See current year finding F 2016-003.

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

<p>F 2015-003 – Community Development Block Grants/Entitlement Grants – Subrecipient Monitoring</p>	<p>During our audit, we noted that the City did not perform an annual monitoring and review for its subrecipient during FY 2014-15.</p>	<p>Not Implemented</p>	<p>See current year finding F 2016-002.</p>
<p>F 2015-004 – Home Investment Partnerships Program (HOME) - Program Income</p>	<p>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.</p>	<p>Partially implemented</p>	<p>The City's Housing Division is in the process of updating the City's HOME Policies and Procedures and both financial and program staff have been hired to ensure the proper reporting of program income.</p> <p>In addition, Housing staff continues to schedule Quarterly Meetings and beginning in August, staff representing the City Manager office, Finance and Housing meets regularly to ensure that the program income is properly recorded in IDIS as well as is in agreement with the City's financial system.</p>

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

<p>F 2015-005 – Home Investment Partnerships Program (HOME) - Period of Performance</p>	<p>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.</p>	<p>Partially implemented</p>	<p>The City's Housing Division is in the process of updating the City's HOME Policies and Procedures and has hired staff to ensure the compliance with program performance requirement timelines</p>
<p>F 2015-006 – Home Investment Partnerships Program (HOME) - Reporting</p>	<p>During our audit of the City’s compliance with the CDBG reporting requirements, we noted the following:</p> <ul style="list-style-type: none"> • 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, <u>Economic Opportunities for Low and Very Low-Income Persons, Report</u> and the <u>Consolidated Annual Performance and Evaluation Report (CAPER)</u> 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. 	<p>Partially implemented</p>	<p>The 2014-2015 CAPER was submitted on September 29, 2016. The City's Housing Division is in the process of currently updating the City's HOME Policies and Procedures and has hired staff to ensure the timely submittal of required reporting. The FY2015-16 CAPER was also submitted on September 29, 2016.</p>



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