



MetroTM

**City of South El Monte
Annual Financial Report of its**

**Proposition A Local Return Fund
Proposition C Local Return Fund
Measure R Local Return Fund
Transportation Development Act Article 3 Fund**

**As of and for the Year Ended June 30, 2016
with Report of Independent Auditors**

	<u>PAGE</u>
FINANCIAL SECTION	
Report of Independent Auditors	1
Proposition A Local Return Fund:	
Basic Financial Statements:	
Balance Sheets	4
Statements of Revenues, Expenditures and Changes in Fund Balance	5
Supplementary Information:	
Schedule of Expenditures – Actual and LACMTA Approved Project Budget	6
Schedule of Capital Assets	7
Proposition C Local Return Fund:	
Basic Financial Statements:	
Balance Sheets	8
Statements of Revenues, Expenditures and Changes in Fund Balance	9
Supplementary Information:	
Schedule of Expenditures – Actual and LACMTA Approved Project Budget	10
Schedule of Capital Assets	11
Measure R Local Return Fund:	
Basic Financial Statements:	
Balance Sheets	12
Statements of Revenues, Expenditures and Changes in Fund Balance	13
Supplementary Information:	
Schedule of Expenditures – Actual and LACMTA Approved Project Budget	14
Schedule of Capital Assets	15
Transportation Development Act Article 3 Fund:	
Basic Financial Statements:	
Balance Sheets	16
Statements of Revenues, Expenditures and Changes in Fund Balance	17
Notes to Funds Financial Statements	18
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 <i>Government Auditing Standards</i>	25
COMPLIANCE SECTION	
Report of Independent Auditors on Compliance	27
Compliance Matrix	29
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	31
EXIT CONFERENCE	40

FINANCIAL SECTION

Report of Independent Auditors

To the Honorable Members of the City Council of the City of South El Monte, California and the Los Angeles County Metropolitan Transportation Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund and the Transportation Development Act Article 3 Fund (collectively, the Funds), of the City of South El Monte, California (the City) which comprise the Funds' balance sheets as of June 30, 2016, and the related statements of revenues, expenditures and changes in fund balances for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Transportation Development Act Article 3 Fund of the City of South El Monte, California, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Transportation Development Act Article 3 Fund, as of and for the year ended June 30, 2015, were audited by other auditors, whose report, dated December 9, 2015, expressed an unmodified opinion on those statements.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Transportation Development Act Article 3 Fund of the City and do not purport to, and do not present fairly the financial position of the City as of June 30, 2016, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on each of the Funds' financial statements as a whole. The supplementary information identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information identified in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the Funds' basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Funds' 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 Funds' basic financial statements or to the Funds' 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 supplementary information is fairly stated, in all material respects, in relation to each of the Funds' basic financial statements as a whole.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2017 on our consideration of the City's internal control over the Funds' financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over the Funds' financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over the Funds' financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over the Funds' financial reporting and compliance.

Vaqueria & Company LLP

Los Angeles, California
March 14, 2017

**City of South El Monte
Proposition A Local Return Fund
Balance Sheets**

		June 30	
		2016	2015
ASSETS			
Cash and investments		\$ 393,960	\$ 270,065
	Total assets	\$ <u>393,960</u>	\$ <u>270,065</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable		\$ 2,206	\$ 7,598
Taxes payable		1,680	-
Accrued payroll and employee benefits		7,637	4,969
	Total liabilities	<u>11,523</u>	<u>12,567</u>
Fund balance			
Restricted		<u>382,437</u>	<u>257,498</u>
	Total fund balance	<u>382,437</u>	<u>257,498</u>
	Total liabilities and fund balance	\$ <u>393,960</u>	\$ <u>270,065</u>

See notes to Funds financial statements.

City of South El Monte
Proposition A Local Return Fund
Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2016	2015
Revenues		
Proposition A	\$ 368,694	\$ 359,224
Interest income	808	558
Cash fares	7,091	7,377
Other reimbursement	3,584	-
Total revenues	380,177	367,159
 Expenditures		
Various projects	255,238	315,374
Total expenditures	255,238	315,374
 Excess of revenues over expenditures	124,939	51,785
 Fund balance at beginning of year	257,498	205,713
 Fund balance at end of year	\$ 382,437	\$ 257,498

See notes to Funds financial statements.

City of South El Monte
Proposition A Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2016
(With Comparative Actuals for 2015)

Project Code	Project Name	2016		Variance Positive (Negative)	2015 Actual
		LACMTA Budget	Actual		
120-01	Paratransit	\$ 211,300	\$ 206,601	\$ 4,699	\$ 200,588
130-02	Special Events	15,130	11,568	3,562	37,188
170-01	Bus Shelter Maintenance	12,580	14,748	(2,168)	4,217
180-01	Paratransit Vehicle	-	-	-	45,260
480-04	Administration	40,340	22,321	18,019	28,121
	Total expenditures	\$ 279,350	\$ 255,238	\$ 24,112	\$ 315,374

See report of independent auditors.

City of South El Monte
Proposition A Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2016

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>
10/24/1991	2 Bus Shelters	\$ 10,036	\$ -	\$ -	10,036
11/27/1991	2 Bus Shelters	10,036	-	-	10,036
02/13/1992	91 Champion Bus-30 PAX	86,933	-	-	86,933
06/26/2003	2004 El Dorado Activan	40,685	-	-	40,685
10/25/2006	Pressure Washer with Trailer	6,473	-	-	6,473
04/29/2008	Pressure Washer	5,000	-	-	5,000
06/03/2008	Bus Shelters	84,366	-	-	84,366
09/01/2008	Bus Shelters	71,833	-	-	71,833
11/04/2014	Dodge Grand Caravan	45,260	-	-	45,260
Total		\$ 360,622	\$ -	\$ -	\$ 360,622

See report of independent auditors.

**City of South El Monte
Proposition C Local Return Fund
Balance Sheets**

		June 30	
		2016	2015
ASSETS			
Cash and investments	\$	1,239,772	\$ 1,153,307
Total assets	\$	1,239,772	\$ 1,153,307
LIABILITIES AND FUND BALANCE			
Liabilities			
Taxes payable	\$	38	\$ -
Accrued payroll and employee benefits		610	1,302
Total liabilities		648	1,302
Fund balance			
Capital reserve - Fawcett/Merced - Santa Anita Signal Project		-	(22,161)
Capital reserve - Durfee Street Improvements Project		931,523	668,850
Restricted - Other		307,601	505,316
Total fund balance		1,239,124	1,152,005
Total liabilities and fund balance	\$	1,239,772	\$ 1,153,307

See notes to Funds financial statements.

City of South El Monte
Proposition C Local Return Fund
Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2016	2015
Revenues		
Proposition C	\$ 307,431	\$ 299,624
Interest income	3,153	3,429
Other reimbursement	897	13,858
Total revenues	311,481	316,911
Expenditures		
Various projects	224,362	451,514
Total expenditures	224,362	451,514
Excess (deficiency) of revenues over expenditures	87,119	(134,603)
Fund balance at beginning of year	1,152,005	1,286,608
Fund balance at end of year	\$ 1,239,124	\$ 1,152,005

See notes to Funds financial statements.

City of South El Monte
Proposition C Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2016
(With Comparative Actuals for 2015)

Project Code	Project Name	2016		Variance Positive (Negative)	2015 Actual
		LACMTA Budget	Actual		
170-02	Bus Stop Shelter	\$ 35,000	\$ 12,463	\$ 22,537	\$ 10,311
300-01	Senior Center Paratransit Improvements	132,137	161,791	(29,654)	94,627
380-02	Durfee Street Improvement and Striping	1,100,000	-	1,100,000	-
400-01	Fawcett/Merced-Santa Anita Signal Upgrade	336,000	19,479	316,521	280,721
440-10	Durfee/Peck Street Project	999,872	-	999,872	-
450-01	Durfee Median Improvement and Striping	1,100,000	9,602 *	1,090,398	40,287
480-02	Administration	43,590	21,027	22,563	25,568
Total expenditures		\$ 3,746,599	\$ 224,362	\$ 3,522,237	\$ 451,514

* See Compliance Matrix and Schedule of Findings and Questioned Costs.

See report of independent auditors.

City of South El Monte
Proposition C Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2016

Date Acquired	Description	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
05/27/1993	1993 Wagon	\$ 11,381	\$ -	\$ -	\$ 11,381
12/09/1993	Maco Bubble Top	3,150	-	-	3,150
12/09/1993	94 Aerotech 16 Passenger Van	38,204	-	-	38,204
12/09/1993	94 Aerotech 21 Passenger Van	41,744	-	-	41,744
02/04/1995	Diagnostic Computer	24,754	-	-	24,754
12/17/1997	Ricon Activan	39,919	-	-	39,919
06/30/2005	Garvey Avenue Pedestrian Safety Signal	45,620	-	-	45,620
06/30/2005	Michael Hunt to Merced Construction	95,259	-	-	95,259
06/30/2005	Garvey Reconstruction	531,299	-	-	531,299
06/03/2006	Durfee Street Improvement	455,245	-	-	455,245
10/31/2006	Santa Anita Avenue Phase I	376,843	-	-	376,843
10/27/2009	Peck/Durfee Project	749,529	-	-	749,529
Total		\$ 2,412,947	\$ -	\$ -	\$ 2,412,947

See report of independent auditors.

**City of South El Monte
Measure R Local Return Fund
Balance Sheets**

		June 30	
		2016	2015
ASSETS			
Cash and investments	\$	415,644	\$ 339,169
Due from other governments		170,000	246,000
Total assets	\$	585,644	\$ 585,169
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	16,000	\$ 21,100
Total liabilities		16,000	21,100
Deferred inflow of resources			
Unavailable revenues		170,000	246,000
Total deferred inflows of resources		170,000	246,000
Fund balance			
Restricted		399,644	318,069
Total fund balance		399,644	318,069
Total liabilities, deferred inflows of resources and fund balance	\$	585,644	\$ 585,169

See notes to Funds financial statements.

City of South El Monte
Measure R Local Return Fund

Statements of Revenues, Expenditures and Changes in Fund Balance

		Years ended June 30	
		2016	2015
Revenues			
Measure R	\$	229,505	\$ 223,526
Interest income		970	784
Other reimbursements		72,000	128,250
Total revenues		302,475	352,560
 Expenditures			
Various projects		220,900	361,191
Total expenditures		220,900	361,191
Excess (deficiency) of revenues over expenditures		81,575	(8,631)
Fund balance at beginning of year		318,069	326,700
Fund balance at end of year	\$	399,644	\$ 318,069

See notes to Funds financial statements.

City of South El Monte
Measure R Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2016
(With Comparative Actuals for 2015)

Project Code	Project Name	2016		Variance Positive (Negative)	2015 Actual
		LACMTA Budget	Actual		
2.16	Rush and Peck Protected Left Turn Phases	\$ -	\$ 1,742 *	\$(1,742)	\$ -
4.90	SR-60 Coalition Work	225,000	215,940 *	9,060	358,127
5.10	Durfee Median Improvement and Striping	52,000	-	52,000	-
5.10	Rush and Peck Signalization	50,200	-	50,200	-
5.30	Civic Center and Interjurisdictional Bikeway	69,000	-	69,000	-
7.10	San Gabriel Valley Council of Governments	-	3,218 *	\$(3,218)	-
8.10	Project Administration	10,000	-	10,000	3,064
Total expenditures		\$ 406,200	\$ 220,900	\$ 185,300	\$ 361,191

* See Compliance Matrix and Schedule of Findings and Questioned Costs.

See report of independent auditors.

City of South El Monte
Measure R Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2016

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>
None		\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$ -	\$ -

See report of independent auditors.

City of South El Monte
 Transportation Development Act Article 3 Fund
 Pursuant to Public Utilities Code Section 99234
 Balance Sheets

		June 30	
		2016	2015
ASSETS			
Cash		\$ -	\$ -
	Total assets	\$ -	\$ -
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable		\$ -	\$ -
	Total liabilities	-	-
Fund balance			
Restricted		-	-
	Total fund balance	-	-
	Total liabilities	\$ -	\$ -

See notes to Funds financial statements.

City of South El Monte
 Transportation Development Act Article 3 Fund
 Pursuant to Public Utilities Code Section 99234
Statements of Revenues, Expenditures and Changes in Fund Balance

	Years ended June 30	
	2016	2015
Revenues		
Intergovernmental Allocations:		
Article 3	\$ -	\$ 45,419
Interest income	-	39
Total revenues	-	45,458
Expenditures		
Construction/Maintenance	-	45,458
Total expenditures	-	45,458
Excess of revenues over expenditures	-	-
Fund balance at beginning of year	-	-
Fund balance at end of year	\$ -	\$ -

See notes to Funds financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The operations of the Proposition A Local Return Fund (PALRF), Proposition C Local Return Fund (PCLRF), Measure R Local Return Fund (MRLRF) and Transportation Development Act Article 3 Fund (TDAA3F) (collectively, the Funds) are accounted for in separate sets of self-balancing accounts that comprise their assets, liabilities, fund balance, revenues and expenditures.

PALRF and PCLRF represent 25% and 20%, respectively, of the ½ cent Proposition A and ½ cent Proposition C sales taxes which are distributed to the jurisdictions within Los Angeles County based on population and must be used exclusively for transportation related programs and projects.

MRLRF is derived from 15% of a county-wide ½ cent sales tax which is distributed to the jurisdictions within Los Angeles County based on a per capita basis and must be used exclusively for transportation purposes.

TDAA3F is a Special Revenue Fund that accounts for the City's share of the Transportation Development Act Article 3 allocations which are legally restricted for specific purposes.

Basis of Accounting and Measurement Focus

The PALRF, PCLRF, MRLRF, and TDAA3F are reported as Special Revenue Funds of the City and are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become "susceptible to accrual", that is, measurable and available to finance expenditures of the current period. Expenditures are recorded when the liability is incurred.

Special Revenue Funds are reported on a spending or "financial flow" measurement focus. This means that generally only current assets, current liabilities and deferred inflows and outflows of resources are included on their balance sheets. Statements of revenues, expenditures and changes in fund balances for Special Revenue Funds generally present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Budgets and Budgetary Accounting

The budgeted amounts presented in this report for comparison to the actual amounts are presented in accordance with accounting principles generally accepted in the United States of America.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, which became effective for the year ended June 30, 2016, the City categorizes its fair value measurement within the fair value hierarchy that is based on the valuation inputs used to measure the fair value of the investment. Level 1 inputs are quoted prices in active markets for identical investments; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Accordingly, the City reports its investments at fair value and recognizes unrealized gain (loss) on investments.

Refer to the City's 2016 Comprehensive Annual Financial Report for detailed disclosures regarding the City's investments policy and fair value measurements.

Fund Balance Reporting

Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes the fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The PALRF, PCLRF, MRLRF, and TDAA3F report the following fund balance classification as of June 30, 2016:

- Restricted - Amounts that are constrained for specific purposes, which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation. The use of the Funds' remaining fund balances are restricted for projects approved by LACMTA.

Information regarding the fund balance reporting policy adopted by the City is described in Note 1 to the City's Comprehensive Annual Financial Report.

Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the City recognizes deferred outflows and deferred inflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period.

Deferred inflows of resources reported by the City represent resources that are not available for spending as of June 30, 2016 and 2015.

NOTE 2 ANNUAL FINANCIAL STATEMENTS

The financial statements reflect only the financial position and results of operations of the PALRF, PCLRF, MRLRF and TDAA3F, and do not purport to, and do not present fairly the City's financial position as of June 30, 2016, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

NOTE 3 PROPOSITION A AND PROPOSITION C LOCAL RETURN COMPLIANCE REQUIREMENTS

The Proposition A Ordinance requires that Local Return (LR) funds be used exclusively to benefit public transit. Expenditures related to fixed route and paratransit services, Transportation Demand Management, Transportation Systems Management and fare subsidy programs that exclusively benefit transit are all eligible uses of Proposition A LR funds. Proposition A LR funds may also be traded with other Jurisdictions in exchange for general or other funds.

The Proposition C Ordinance directs that LR funds also be used to benefit public transit, as described above, but provides an expanded list of eligible project expenditures including Congestion Management Programs, bikeways and bike lanes, street improvements supporting public transit service, and Pavement Management System projects. Proposition C LR funds cannot be traded.

In accordance with *Proposition A and Proposition C Local Return Program Guidelines*, funds received pursuant to these guidelines may only be used for Proposition A and Proposition C Local Return approved programs. See accompanying Compliance Matrix.

NOTE 4 MEASURE R LOCAL RETURN COMPLIANCE REQUIREMENTS

The Measure R Ordinance specifies that LR funds be used exclusively for transportation purposes.

In accordance with *Measure R Local Return Program Guidelines*, funds received pursuant to these guidelines may only be used for Measure R Local Return approved programs. See accompanying Compliance Matrix.

NOTE 5 TRANSPORTATION DEVELOPMENT ACT COMPLIANCE REQUIREMENTS

In accordance with *Public Utilities Code Section 99234*, funds received pursuant to this Code's section may only be used for activities relating to pedestrians and bicycle facilities. See accompanying Compliance Matrix.

NOTE 6 CASH AND INVESTMENTS

The PALRF, PCLRF, MRLRF and TDAA3F cash balances were pooled with various other City funds for deposit and investment purposes. The share of each fund in the pooled cash account was separately maintained and interest income was apportioned to the participating funds based on the relationship of their average quarterly balances to the total of the pooled cash and investments.

Please refer to the City's Comprehensive Annual Financial Report (CAFR) for a full description of risks relating to cash and investments.

NOTE 7 OTHER REIMBURSEMENT – PALRF and PCLRF

Other reimbursements represent the money that the City received from California JPIA Insurance Company for damage that had been incurred on the Bus Stop Shelter Lighting. Total reimbursements received under PALRF amounted to \$3,584 during the year ended June 30, 2016.

Total reimbursements received under PCLRF amounted to \$897 and \$13,858 during the years ended June 30, 2016 and 2015, respectively.

NOTE 8 CAPITAL RESERVE ACCOUNTS – PCLRF

Fawcett/Merced-Santa Anita Signal Upgrade Project

On June 30, 2013, LACMTA and the City entered into a capital reserve agreement (CRA.PCSOELM13), to establish a capital reserve account (Account) of \$280,868 for the Fawcett/Merced-Santa Anita Signal Upgrade project.

The Account is funded with the Proposition C Local Return funds allocated to the City. All interest accrued is accrued in the Account for use exclusively for the said project. If the project is not completed by June 30, 2016, any unexpended funds shall lapse and be returned to LACMTA.

For the years ended June 30, 2016 and 2015, following is the capital reserve amount for the project:

Capital reserve balance at June 30, 2014	\$	258,560
Expenditures during the year		(280,721)
Capital reserve balance at June 30, 2015		(22,161)
Additional funding during the year		41,640
Expenditures during the year		(19,479)
Capital reserve balance at June 30, 2016	\$	-

NOTE 8 CAPITAL RESERVE ACCOUNTS – PCLRF (CONTINUED)

Durfee Street Improvements Project

On March 1, 2015, LACMTA and the City entered into a capital reserve agreement (CRA.PCLRSOEL15) to establish a capital reserve account (Account) of \$830,000 for the Durfee Street Improvements Project.

The Account is funded with the Proposition C Local Return funds allocated to the City. All interest accrued is accrued in the Account for use exclusively for the said project. If the project is not completed by June 30, 2017, any unexpended funds shall lapse and be returned to LACMTA.

For the years ended June 30, 2016 and 2015, following is the capital reserve amount for the project:

Capital reserve balance at June 30, 2014	\$	774,437
Expenditures during the year		<u>(105,587)</u>
Capital reserve balance at June 30, 2015		668,850
Additional capital reserve during the year		270,000
Investment income allocated during the year		2,275
Expenditures during the year		<u>(9,602)</u>
Capital reserve balance at June 30, 2016	\$	<u><u>931,523</u></u>

NOTE 9 DUE FROM OTHER GOVERNMENTS – MRLRF

The City entered into a reimbursement agreement with the cities of El Monte, Industry, Montebello, Monterey Park and Rosemead (“Cities”) to support the selection of Alternative 1 for the second phase of the Metro Gold Line Eastside Extension. Each of the Cities is to reimburse the City one-fifth of the fees and costs incurred by the City pursuant to the professional services agreement dated December 13, 2009. See Note 11.

The City records the receivable when expenditures are incurred and the portion of the expenditures to be reimbursed are billed to the Cities.

At June 30, 2016 and 2015, the Due from other governments under MRLRF consists of reimbursements to be received from the following Cities:

		2016		2015
City of El Monte	\$	<u>158,000</u>	\$	112,000
City of Monterey Park		<u>12,000</u>		134,000
Total	\$	<u><u>170,000</u></u>	\$	<u><u>246,000</u></u>

NOTE 10 DEFERRED INFLOWS OF RESOURCES – MRLRF

The City recognizes revenue when the reimbursements from the Cities become measurable and available. In years ended June 30, 2016 and 2015, the City records deferred inflow of resources when the availability of the funds is not determined at year end.

The issuance of Governmental Accounting Standards Board No. 65, Items Previously Reported as Assets and Liabilities, established accounting and financial reporting standards that reclassify certain liabilities as deferred inflows of resources. A deferred inflow of resources is defined as those resources that are not available for spending in the current period. Since the reimbursements from the cities were not available for spending for MRLRF at June 30, 2016 and 2015, and the drawdown from LACMTA was not received for MRLRF in years ended June 30, 2016 and 2015, the amounts are reported as deferred inflows of resources.

At June 30, 2016 and 2015, the deferred inflows of resources under MRLRF consist of reimbursements from the following cities:

	2016	2015
City of El Monte	\$ 158,000	\$ 112,000
City of Monterey Park	12,000	134,000
Total	\$ 170,000	\$ 246,000

NOTE 11 PROFESSIONAL AND REIMBURSEMENT AGREEMENT – MRLRF

The Los Angeles County Metropolitan Transit Authority (“LACMTA”) designed and constructed, in phases, a light rail project known as the Metro Gold Line. The MTA is currently evaluating potential alternatives for the second phase of the Metro Gold Line Eastside Extension. One of the alternative routes LACMTA is considering is “Alternative 1” aligned with State Highway 60.

In May 2009, the City entered into a professional services agreement with Mike Roos & Company (“Mike Roos”), under which Mike Roos will perform all services necessary to accomplish the City’s goal of LACMTA’s selection of Alternative 1. The term of the agreement was from May 13, 2009 to December 31, 2012. The agreement was amended on June 9, 2015 to extend the term to May 28, 2016. The agreement was further amended to extend the term to December 31, 2016. The City was contractually obligated to pay Mike Roos \$10,000 per month for fiscal year 2015-2016 on an as needed basis to compensate Mike Roos for all the services and normal and ordinary expenses incurred with such services.

Also, the City has entered into a reimbursement agreement with the Cities of Monterey Park, El Monte, Industry, Rosemead, and Montebello (“Cities”) to support the selection of Alternative I. Each of the Cities shall reimburse the City one-fifth of the fees and costs incurred by the City pursuant to the professional services agreement dated May 5, 2009, as described in the previous paragraph.

**NOTE 11 PROFESSIONAL AND REIMBURSEMENT AGREEMENT – MRLRF
(CONTINUED)**

Reimbursements recorded during the years ended June 30, 2016 and 2015 are as follows:

	2016	2015
City of Industry	\$ 24,000	\$ 42,750
City of Montebello	24,000	42,750
City of Rosemead	24,000	42,750
Total	\$ 72,000	\$ 128,250

**NOTE 12 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUND REVENUE
ALLOCATION**

The revenue allocations for the years ended June 30, 2016 and 2015 consisted of the following:

	2016	2015
FY 2011/13 allocation	\$ -	\$ 7,804
FY 2013/14 allocation	-	13,579
Payment from prior year reserves	-	24,036
	\$ -	\$ 45,419

NOTE 13 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUNDS RESERVED

In accordance with TDA Article 3 (SB821) Guidelines, funds which will not be spent during the fiscal year have been placed on reserve in the Local Transportation Fund (LTF) account with the County Auditor-Controller to be drawn down whenever the funds become eligible for a specific project and an approved drawdown request is received by LACMTA. As of June 30, 2016 and 2015, the City has funds on reserve as follows:

	2016	2015
FY 2013/14 reserve	\$ 2,890	\$ 2,890
FY 2014/15 reserve	13,418	13,418
FY 2015/16 allocation	13,028	-
	\$ 29,336	\$ 16,308

For FY 2015/16, any TDA Article 3 funds left on reserve for FY 2011/12 or prior, are subject to lapse if not claimed by the City by June 30, 2016. There were no funds that lapsed in FY 2015/16.

NOTE 14 SUBSEQUENT EVENTS

The City has evaluated subsequent events through March 14, 2017, the date the financial statements were available to be issued, and concluded no events have occurred that require disclosure or adjustments to the financial statements.

**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***

**To the Honorable Members of the City Council of the
City of South El Monte, California and the
Los Angeles County Metropolitan Transportation Authority**

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 Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund and the Transportation Development Act Article 3 Fund (collectively, the Funds) of the City of South El Monte, California (the City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated March 14, 2017.

Internal Control over Financial Reporting

In planning and performing our audits of the Funds' financial statements, we considered the City's internal control over the Funds' financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Funds' financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 Funds' 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. We did identify certain deficiencies in internal control, as described in the accompanying Schedule of Findings and Questioned Costs as Findings #2016-002 and #2016-003 that we consider to be material weaknesses.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, and Transportation Development Act Article 3 Fund financial statements are free from 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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the Schedule of Findings and Questioned Costs as Findings #2016-002 and #2016-003.

The City's Responses to the Findings

The City's responses to the 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 the financial statements, and accordingly, we express no opinion on the responses.

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.

Los Angeles, California
March 14, 2017

COMPLIANCE SECTION

Report of Independent Auditors on Compliance

**To the Honorable Members of the City Council of the
City of South El Monte, California and the
Los Angeles County Metropolitan Transportation Authority**

Report on Compliance

We have audited the compliance of the City of South El Monte, California (the City) with the Proposition A and Proposition C Local Return Guidelines, Measure R Local Return Guidelines, Transportation Development Act Article 3, and the Los Angeles County Metropolitan Transportation Authority's Funding and Allocation Guidelines for Transportation Development Act Article 3 Bicycle and Pedestrian Funds (collectively, the Guidelines) for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for the City's compliance with the Guidelines.

Auditors' Responsibility

Our responsibility is to express an opinion on the City's compliance with the Guidelines based on our audit. We conducted our audit of compliance in accordance with the 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 Guidelines. Those standards and the Guidelines require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the Proposition A Local Return Program, Proposition C Local Return Program, Measure R Local Return Program, and Transportation Development Act Article 3 Program 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 with the Guidelines. However, our audit does not provide a legal determination of the City's compliance with the Guidelines.

Opinion

In our opinion, the City of South El Monte, California complied, in all material respects, with the compliance requirements of the Guidelines for the year ended June 30, 2016.



Other Matters

The results of our auditing procedures disclosed instances of noncompliance with the requirements, which are described in the accompanying Schedule of Findings and Recommendations as Findings #2016-001 to #2016-005. Our opinion 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 Recommendations. 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 compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance, 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 on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with the requirements, such that there is a reasonable possibility that material noncompliance 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 the requirements 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 consider the deficiencies as discussed in the accompanying Schedule of Findings and Questioned Costs as Finding #2016-002 to Finding #2016-003, collectively, to be material weaknesses.

The City'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'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 the Guidelines. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Vaqueria & Company LLP".

**Los Angeles, California
March 14, 2017**

**City of South El Monte
Compliance Matrix
Year ended June 30, 2016**

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
A. Proposition A and Proposition C Local Return Funds					
1. Uses the State Controller's Uniform System of Accounts and Records.	X				
2. Timely use of funds.	X				
3. Funds expended were approved and have not been substituted for property tax.	X				
4. Expenditures that exceeded 25% of approved project budget have approved amended Project Description Form (Form A)	X				
5. Administrative expenses are within the 20% cap of the total annual Local Return Expenditures.	X				
6. All on-going and carryover projects were reported in Form B.	X				
7. Annual Project Summary Report (Form B) was submitted on time.	X				
8. Annual Expenditure Report (Form C) was submitted on time.		X			See Finding #2016-001
9. Cash or cash equivalents are maintained.	X				
10. Accounting procedures, record keeping and documentation are adequate.		X		\$9,302	See Finding #2016-002
11. Pavement Management System (PMS) in place and being used for Street Maintenance or Improvement Projects Expenditures.	X				
12. Local Return Account is credited for reimbursable expenditures.	X				
13. Self-Certification was completed and submitted for Intelligent Transportation Systems projects or elements.			X		
14. Assurances and Understandings form was on file.	X				
15. Recreational Transit Form was submitted on time.	X				

**City of South El Monte
Compliance Matrix
Year ended June 30, 2016**

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
B. Measure R Local Return Fund					
1. Funds were expended for transportation purposes.		X		\$4,015	See Finding #2016-003
2. Funds were used to augment, not supplant, existing local revenues being used for transportation purposes unless there is a funding shortfall.	X				
3. Signed Assurances and Understandings on file.	X				
4. Separate Measure R Local Return Account was established.	X				
5. Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure R Local Return Account.	X				
6. Funds were expended with LACMTA's approval.		X			See Finding #2016-004
7. Expenditure Plan (Form One) was submitted on time.	X				
8. Expenditure Report (Form Two) was submitted on time.		X			See Finding #2016-005
9. Timely use of funds.	X				
10. Administrative expenses are within the 20% cap.	X				
11. Fund exchanges were approved by LACMTA.			X		
12. A separate account was established for Capital reserve funds and Capital reserve was approved by LACMTA.			X		
13. Recreational transit form was submitted on time.			X		
C. Transportation Development Act Article 3 Fund					
1. Timely use of funds.	X				
2. Expenditures were incurred for activities relating to pedestrian and bicycle facilities and amenities.			X		There were no expenditures incurred during the year.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of South El Monte
Schedule of Findings and Questioned Costs
Year ended June 30, 2016**

PCLRF: Finding #2016-001

Compliance Reference	Proposition A and Proposition C Local Return Program Guidelines Section III(A) states that "To maintain eligibility and meet LR program compliance requirements, jurisdictions shall submit to LACMTA an Annual Expenditure Report (Form C) annually by October 15 of each year".
Condition	The City submitted its Annual Expenditure Report (Form C) on November 7, 2016, which is beyond the due date set under the Guidelines.
Cause	The City lacks adequate procedures and controls to ensure that the Annual Expenditure Report (Form C) is submitted on time.
Effect	Annual Expenditure Report (Form C) was not submitted timely as required by the Guidelines.
Recommendation	We recommend for the City to establish procedures and controls to ensure that Annual Expenditure Report (Form C) is submitted by October 15 as required by the Guidelines.
Management's Response	The City agrees with this finding. The City is in the process of setting up a calendar that lists all deadlines established for financial reporting to the various agencies.

PCLRF: Finding #2016-002

<p>Compliance Reference</p>	<p>The Proposition A and Proposition C Ordinances specify that LR funds are to be used for “public transit purposes” as defined by the following: “A proposed expenditure of funds shall be deemed to be for public transit purposes to the extent that it can reasonably be expected to sustain or improve the quality and safety of and/or access to public transit services by the general public or those requiring special public transit assistance”.</p> <p>Under Section V of the Proposition A and Proposition C Local Return Guidelines, “It is the jurisdictions’ responsibility to maintain proper accounting records and documentation to facilitate the performance of the audit....”</p>
<p>Condition</p>	<p>During the fiscal year 2016, the City made payments to ECM Group, Inc. under the PCLRF project code 450-01, Durfee Median Improvement and Striping project, totaling \$9,302.</p> <p>On June 2, 2016 the City of South El Monte ("City") provided a response to each finding in the Draft Report of Forensic Accountants, dated February 26, 2016 ("Draft Report"). The Draft Report was prepared to address issues identified by the City's independent auditor in a letter dated September 8, 2015 ("VLF Letter"). There are 14 findings in the Draft Report. In general, the findings relate to various contracts (i) between the City and OH Consulting Services, Inc. dba Arroyo Strategy Group ("Arroyo") and (ii) between the City and ECM Group, Inc. ("ECM"). The City has terminated its contract with Arroyo, effective June 30, 2016. With one exception, the City has terminated all contracts with ECM effective April 30, 2016.</p> <p>Below are the findings identified in the Draft Report prepared by the Forensic Accountants:</p> <p>Finding 1: <i>City management failed to subject Arroyo and ECM contracts to competition.</i></p> <p>Finding 2: <i>City management failed to require and inspect proper record keeping and document retention policies related to contractors' performance of contract.</i></p> <p>Finding 3: <i>City management failed to institute and enforce control procedures that would assure payments were not made in excess of contractual limits. City management failed to institute and enforce control procedures that would assure compliance with contractual hourly rates.</i></p>

PCLRF: Finding #2016-002 (continued)

<p>Condition (Continued)</p>	<p>Finding 4: <i>City management failed to maintain sufficient control over accounts payable and check disbursement procedures.</i></p> <p>Finding 5: <i>The City Manager executed three contracts (each in excess of \$25,000) and authorized payments of \$110,000 to Arroyo without City Council's approval.</i></p> <p>Finding 6: <i>With City Council's unanimous approval, the City Manager executed a separate contract with Arroyo, with a three-year term, which contains no maximum fee provision, and which fails to grant the City customary audit rights. Although present at the meeting where this contract was approved, the City Attorney did not sign this contract.</i></p> <p>Finding 7: <i>Arroyo failed to allow inspection of its records, although obligated to do so in accordance with six of the contracts effective during the report period. In response to our inspection request, Arroyo asserted that it does not maintain any physical office location. Consequently, we were unable to perform an inspection of Arroyo's records, and were unable to analyze important quantitative aspects of Arroyo's performance, such as the hours of labor provided, the dates on which labor was supplied, and details of tasks performed.</i></p> <p>Finding 8: <i>With reference to contracts executed or pending during the fiscal year ended 06/30/15, between the City and ECM: the City Manager executed one contract and authorized payments of \$29,376 to ECM without City Council's approval.</i></p> <p>Finding 9: <i>ECM submitted false time and billing reports to the City, and received public funds on the basis of such false information.</i></p> <p>Finding 10: <i>No contract or supporting documents exist related to a number of special projects assigned to Arroyo, and for which Arroyo was paid.</i></p> <p>Finding 11: <i>Although specifically prohibited from reimbursement of expenses without prior written authorization, Arroyo tendered reimbursement claims, and was paid reimbursements of \$3,283 including expenses related to a trip to Sacramento, cables and electronics, and a room fee for the SR-60 Coalition meeting, without prior written authorization.</i></p>
-------------------------------------	--

**City of South El Monte
Schedule of Findings and Questioned Costs
Year ended June 30, 2016**

PCLRF: Finding #2016-002 (continued)

Condition (Continued)	<p>Finding 12: <i>Timesheets submitted by Arroyo are unsubstantiated.</i></p> <p>Finding 13: <i>The ECM contracts were altered substantially without approval of the City Council.</i></p> <p>Finding 14: <i>Certain timesheets submitted by ECM are unsubstantiated.</i></p>
Cause	There was a breakdown in the internal controls over procurement at the City.
Effect	For fiscal year 2016, the reimbursements without proper supporting documentation and/or prior written authorization resulted in questioned costs of \$9,302. However, it is uncertain at this point how much of the expenditures in prior years should be questioned due to the findings enumerated above.
Recommendation	In accordance with the Guidelines, we recommend that the City reimburse its Proposition C Local Return account \$9,302. We also recommend that the City establish controls to ensure that the expenditures charged to the Local Return funds are adequately supported by contracts, invoices, canceled checks or similar documentation and properly authorized so that the City's expenditures of Local Return funds will be in compliance with the Guidelines.
Management's Response	As mentioned in the Finding, the City had a forensic audit performed and responded to the findings. In addition, the City has adopted numerous policies including a comprehensive Purchasing Manual that ensures proper controls over purchasing, processing and the ultimate paying of expenditures related to the City. This policy was adopted and approved by the City Council in March 2016 and was provided to the auditors at the time of the audit. The City will refund to the Proposition C Local Return Fund the amount of \$9,302 during the current fiscal year.
Finding Corrected During the Audit	The City has reimbursed the City's PCLRF account the amount of \$9,302 in FY 2016/17. No follow up is required.

City of South El Monte
Schedule of Findings and Questioned Costs
Year ended June 30, 2016

MRLRF: Finding #2016-003

<p>Compliance Reference</p>	<p>According to Measure R Guidelines, Section B (VII. Audit Section), "Jurisdictions are required to expend their Measure R Local Return funds for transportation purposes, as defined by the Guidelines" and "It is the Jurisdictions' responsibility to maintain proper accounting records and documentation."</p>
<p>Condition</p>	<p>During the fiscal year 2016, the City made payments to Arroyo Strategy Group under the MRLRF project code 4.90, SR-60 Coalition Work, totaling \$4,015.</p> <p>On June 2, 2016 the City of South El Monte ("City") provided a response to each finding in the Draft Report of Forensic Accountants, dated February 26, 2016 ("Draft Report"). The Draft Report was prepared to address issues identified by the City's independent auditor in a letter dated September 8, 2015 ("VLF Letter"). There are 14 findings in the Draft Report. In general, the findings relate to various contracts (i) between the City and OH Consulting Services, Inc. dba Arroyo Strategy Group ("Arroyo") and (ii) between the City and ECM Group, Inc. ("ECM"). The City has terminated its contract with Arroyo, effective June 30, 2016. With one exception, the City has terminated all contracts with ECM effective April 30, 2016.</p> <p>Below are the findings identified in the Draft Report prepared by the Forensic Accountants:</p> <p>Finding 1: <i>City management failed to subject Arroyo and ECM contracts to competition.</i></p> <p>Finding 2: <i>City management failed to require and inspect proper record keeping and document retention policies related to contractors' performance of contract.</i></p> <p>Finding 3: <i>City management failed to institute and enforce control procedures that would assure payments were not made in excess of contractual limits. City management failed to institute and enforce control procedures that would assure compliance with contractual hourly rates.</i></p> <p>Finding 4: <i>City management failed to maintain sufficient control over accounts payable and check disbursement procedures.</i></p> <p>Finding 5: <i>The City Manager executed three contracts (each in excess of \$25,000) and authorized payments of \$110,000 to Arroyo without City Council's approval.</i></p>

MRLRF: Finding #2016-003 (Continued)

<p>Condition (Continued)</p>	<p>Finding 6: <i>With City Council's unanimous approval, the City Manager executed a separate contract with Arroyo, with a three-year term, which contains no maximum fee provision, and which fails to grant the City customary audit rights. Although present at the meeting where this contract was approved, the City Attorney did not sign this contract.</i></p> <p>Finding 7: <i>Arroyo failed to allow inspection of its records, although obligated to do so in accordance with six of the contracts effective during the report period. In response to our inspection request, Arroyo asserted that it does not maintain any physical office location. Consequently, we were unable to perform an inspection of Arroyo's records, and were unable to analyze important quantitative aspects of Arroyo's performance, such as the hours of labor provided, the dates on which labor was supplied, and details of tasks performed.</i></p> <p>Finding 8: <i>With reference to contracts executed or pending during the fiscal year ended 06/30/15, between the City and ECM: the City Manager executed one contract and authorized payments of \$29,376 to ECM without City Council's approval.</i></p> <p>Finding 9: <i>ECM submitted false time and billing reports to the City, and received public funds on the basis of such false information.</i></p> <p>Finding 10: <i>No contract or supporting documents exist related to a number of special projects assigned to Arroyo, and for which Arroyo was paid.</i></p> <p>Finding 11: <i>Although specifically prohibited from reimbursement of expenses without prior written authorization, Arroyo tendered reimbursement claims, and was paid reimbursements of \$3,283 including expenses related to a trip to Sacramento, cables and electronics, and a room fee for the SR-60 Coalition meeting, without prior written authorization.</i></p> <p>Finding 12: <i>Timesheets submitted by Arroyo are unsubstantiated.</i></p> <p>Finding 13: <i>The ECM contracts were altered substantially without approval of the City Council.</i></p> <p>Finding 14: <i>Certain timesheets submitted by ECM are unsubstantiated.</i></p>
-------------------------------------	---

**City of South El Monte
Schedule of Findings and Questioned Costs
Year ended June 30, 2016**

MRLRF: Finding #2016-003 (Continued)

Cause	There was a breakdown in the internal controls over procurement at the City.
Effect	For fiscal year 2016, the reimbursements without proper supporting documentation and/or prior written authorization resulted in questioned costs of \$4,015. However, it is uncertain at this point how much of the expenditures in prior years should be questioned due to the findings enumerated above.
Recommendation	In accordance with the Guidelines, we recommend that the City reimburse its Measure R Local Return account \$4,015. We also recommend that the City establish controls to ensure that the expenditures charged to the Local Return funds are adequately supported by contracts, invoices, canceled checks or similar documentation and properly authorized so that the City's expenditures of Local Return funds will be in compliance with the Guidelines.
Management's Response	As mentioned in the Finding, the City had a forensic audit performed and responded to the findings. In addition, the City has adopted numerous policies including a comprehensive Purchasing Manual that ensures proper controls over purchasing, processing and the ultimate paying of expenditures related to the City. This policy was adopted and approved by the City Council in March 2016 and was provided to the auditors at the time of the audit. The City will refund to the Measure R Local Return Fund the amount of \$4,015 during the current fiscal year.
Finding Corrected During the Audit	The City has reimbursed the City's MRLRF account the amount of \$4,015 in FY 2016/17. No follow up is required.

**City of South El Monte
Schedule of Findings and Questioned Costs
Year ended June 30, 2016**

MRLRF: Finding #2016-004

Compliance Reference	Measure R Local Return Program Guidelines Section B(VII)(A) states that, "The Measure R LR Audits shall include, but not limited to, verification of adherence to the following financial and compliance provisions of this guidelines: Verification that funds were expended with Metro's approval."
Condition	The City claimed expenditures for the following projects without prior approval from LACMTA: a. Project code 2.16, Rush and Peck Protected Left Turn Phases, amounting to \$1,742; and b. Project code 7.10, San Gabriel Valley Council of Governments (SGVCOG), amounting to \$3,218. The City submitted a revised Expenditure Plan (Form One) to the LACMTA Program Manager and obtained a retroactive approval of the said project on December 22, 2016.
Cause	The City lacks adequate procedures to ensure that a revised Expenditure Plan (Form One) is submitted to obtain approval prior to implementation of a Measure R-funded project.
Effect	The City claimed expenditures totaling \$4,960 without prior approval from LACMTA. Lack of prior approval results in non-compliance which could impact future funding or result in questioned costs that require funding to be returned to LACMTA.
Recommendation	We recommend for the City to submit a revised Expenditure Plan (Form One) to obtain approval from LACMTA. In addition, the City should establish procedures and controls to ensure that approval is obtained from LACMTA prior to implementing any Measure R-funded projects.
Management's Response	The City is establishing a procedure that will insure that approval is obtained before starting any Measure R projects.
Finding Corrected During the Audit	LACMTA Program Manager granted a retroactive approval of this project on December 22, 2016. No follow up is required.

**City of South El Monte
Schedule of Findings and Questioned Costs
Year ended June 30, 2016**

MRLRF: Finding #2016-005

Compliance Reference	Section B(II)(2) of the Measure R Local Return Program Guidelines states that "...Jurisdictions shall submit to LACMTA an Expenditure Report (Form Two), annually, by October 15 th (following the conclusion of the fiscal year)...."
Condition	The City submitted its Expenditure Report (Form Two) on November 7, 2016, which is beyond the due date set under the Guidelines.
Cause	The City lacks adequate procedures and controls to ensure that the Expenditure Report (Form Two) is submitted on time.
Effect	Form Two (Expenditure Report) was not submitted timely as required by the Guidelines.
Recommendation	We recommend for the City to establish procedures and controls to ensure that Expenditure Report (Form Two) is submitted by October 15 as required by the Guidelines.
Management's Response	The City is establishing a finance calendar that will indicate all the filing dates required by each of the various agencies that the City supplies reports to.
Finding Corrected During the Audit	The City subsequently submitted the form. No follow up is required.

EXIT CONFERENCE

An exit conference was held on March 14, 2017 with the City of South El Monte representatives. Those in attendance were:

Vasquez and Company LLP representatives:
Roger Martinez – Partner
Marialyn Salvador – Audit Manager

City of South El Monte representatives:
Michael Blazenski – Interim Finance Director
Joann Shao – Accounting Manager

Matters discussed:

Results of the audit disclosed instances of noncompliance with the Local Return Guidelines.

A copy of this report was forwarded to the following City of South El Monte representatives for comments prior to the issuance of the final report:

Michael Blazenski – Interim Finance Director
Joann Shao – Accounting Manager
Jennifer Vasquez – Assistant City Manager



www.vasquezcpa.com

Vasquez & Company LLP has over 45 years of experience in performing audit, accounting & consulting services for all types of nonprofit organizations, for-profit companies, governmental entities and publicly traded companies. Vasquez is a member of the RSM US Alliance. RSM US Alliance provides its members with access to resources of RSM US LLP. RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International. Visit rsmus.com/about-us for more information regarding RSM US LLP and RSM International. The RSM™ logo is used under license by RSM US LLP. RSM US Alliance products and services are proprietary to RSM US LLP.

801 South Grand Avenue, Suite 400 • Los Angeles, California 90017-4646 • Ph. (213) 873-1700 • Fax (213) 873-1777