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

Transportation Development Act Article 3 Fund

**As of and for the Year Ended June 30, 2019
with Report of Independent Auditors**

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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 Transportation Development Act Article 3 Fund (TDAA3 Fund or the Fund), of the City of South El Monte, California (the City) which comprise the Fund's balance sheet as of June 30, 2019, and the related statement of revenues, expenditures and changes in fund balance 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 City's preparation and fair presentation of the Fund's 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 City'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Transportation Development Act Article 3 Fund of the City of South El Monte, California as of June 30, 2019, 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.

Emphasis of Matter

As discussed in Note 2, the financial statements are intended to present only the Transportation Development Act Article 3 Fund of the City of South El Monte, California, and do not purport to, and do not present the financial position of the City as of June 30, 2019, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2020 on our consideration of the City's internal control over the Fund's 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 solely to describe the scope of our testing of internal control over the Fund's financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over the Fund's 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 Fund's financial reporting and compliance.

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

**Glendale, California
June 25, 2020**

City of South El Monte
Transportation Development Act Article 3 Fund
Pursuant to Public Utilities Code Section 99234
Balance Sheet
June 30, 2019

ASSETS

Cash	\$ <u> -</u>
Total assets	\$ <u> -</u>

LIABILITIES AND FUND BALANCE

Liabilities	
Accounts payable	\$ <u> -</u>
Total liabilities	<u> -</u>
 Fund balance	
Restricted	<u> -</u>
Total fund balance	<u> -</u>
Total liabilities	\$ <u> -</u>

See notes to Fund financial statements.

City of South El Monte
Transportation Development Act Article 3 Fund
Pursuant to Public Utilities Code Section 99234
Statement of Revenues, Expenditures and Changes in Fund Balance
Year ended June 30, 2019

Revenues

Intergovernmental Allocations:
 Article 3

\$ _____ -
Total revenues _____ -

Expenditures

Construction/Maintenance

_____ -
Total expenditures _____ -

Excess of revenues over expenditures

-

Fund balance at beginning of year

_____ -

Fund balance at end of year

\$ _____ -

See notes to Fund financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The operations of the Transportation Development Act Article 3 Fund (TDAA3F) (the Fund) of the City of South El Monte (the City) are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures.

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 TDAA3F is reported as a Special Revenue Fund of the City and is 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.

Fair Value Measurement

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, 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 Comprehensive Annual Financial Report for detailed disclosures regarding the City's investments policy and fair value measurement disclosures.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 TDAA3F reported zero balance in the following fund balance classification as of June 30, 2019:

- 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 Fund's remaining fund balances are restricted for projects approved by LACMTA.

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

NOTE 2 ANNUAL FINANCIAL STATEMENTS

The financial statements are intended to present only the financial position and results of operations of the TDAA3F, and do not purport to, and do not present the City's financial position as of June 30, 2019, 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 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 4 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, 2019, the City has funds on reserve as follows:

FY 2016/17 allocation	\$	13,158
FY 2017/18 allocation		13,567
FY 2018/19 allocation		14,154
	\$	40,879

**NOTE 4 TRANSPORTATION DEVELOPMENT ACT ARTICLE 3 FUNDS RESERVED
(CONTINUED)**

For FY 2018/19, any TDA Article 3 funds left on reserve for FY 2014/15 or prior, are subject to lapse if not claimed by the City by June 30, 2019. There were no funds that lapsed in FY 2018/19.

The City did not drawdown any TDA Article 3 funds during the fiscal year ended June 30, 2019.

NOTE 5 SUBSEQUENT EVENTS

The City has evaluated events subsequent to June 30, 2019 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through June 25, 2020, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in 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 Transportation Development Act Article 3 Fund (the Fund) of the City of South El Monte, California (the City) as of and for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated June 25, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the Fund's financial statements, we considered the City's internal control over the Fund's financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Fund's 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 Fund's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control described in the Schedule of Findings on Internal Control over Financial Reporting as Finding No. FS 2019-001 that we consider to be a material weakness.



The City's Response to the Finding

The City's response to the finding identified in our audit is described in the accompanying Schedule of Findings on Internal Control over Financial Reporting. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the response.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's 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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Vasquez & Company LLP". The signature is written in a cursive, flowing style.

**Glendale, California
June 25, 2020**

Finding No. FS 2019-001: Year-end Closing Process

Criteria

Transportation Development Article 3 Funding and Allocation Guidelines states that, "It is the jurisdictions' responsibility to maintain proper accounting records and documentation to facilitate the performance of the audit as prescribed in these Guidelines".

Condition and Context

This year's closing process was delayed because some important procedures were not performed on time. This includes reconciliation of major balance sheet accounts including bank accounts.

Cause and Effect

We learned that the City lost several key employees in the finance and accounting department during the fiscal year 2018 and 2019. As such, there was a delay in the closing of the City's books for the fiscal year 2018 and 2019. Currently, the accounting personnel and support do not have the institutional knowledge to ensure the books are updated and transactions are recorded correctly. These conditions resulted in delays in producing closing entries, trial balances, schedules, reconciliations, account analysis, and other financial reports needed by management and the auditors.

Recommendation

We recommend that the City of South El Monte establish and document proper closing and reconciliation procedures and assign responsibility for completing the procedures to specific City personnel. The closing procedures should be documented in a checklist that indicates who will perform each procedure and when completion of each procedure is due and is accomplished. The timing of specific procedures could be coordinated with the timing of management's or the auditor's need for the information. These reconciliations will provide assurance that financial statements are meaningful and accurate.

Views of Responsible Officials

The City is in the process of catching up on all accounting processes that have not been completed due to staff turnover and various other reasons. The new management team in the Finance Department are putting procedures in place to ensure monthly and annual year-end closing processes are well documented and occur on time.

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 Los Angeles County Metropolitan Transportation Authority's Funding and Allocation Guidelines for Transportation Development Act Article 3 Bicycle and Pedestrian Funds (the Guidelines) for the year ended June 30, 2019.

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 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 adverse 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, 2019.



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 under the Guidelines 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, such that there is a reasonable possibility that material noncompliance under the Guidelines 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 Guidelines 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 "Vaquero & Company LLP".

Glendale, California
June 25, 2020

**City of South El Monte
Compliance Matrix
Year ended June 30, 2019**

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
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 in FY 2018/19.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of South El Monte
Schedule of Findings and Questioned Costs
Year ended June 30, 2019**

There were no findings noted.

EXIT CONFERENCE

An exit conference was held on June 25, 2020 with the City of South El Monte representative. Those in attendance were:

Vasquez and Company LLP representative:
Marialyn Salvador – Audit Senior Manager

City of South El Monte representative:
Irma Peniche – Grants Coordinator

Matters discussed:

Results of the audit disclosed no significant compliance issues. However, we identified a deficiency in internal control over financial reporting.

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:

William Fox – Interim Finance Director
Masami Higa – Interim Finance Manager
Irma Peniche – Grants Coordinator



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