



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
Measure M Local Return Fund
Transportation Development Act Article 3 Fund**

**As of and for the Years Ended June 30, 2020 and 2019
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
Measure M Local Return Fund:	
Basic Financial Statements:	
Balance Sheets	16
Statements of Revenues, Expenditures and Changes in Fund Balance	17
Supplementary Information:	
Schedule of Expenditures – Actual and LACMTA Approved Project Budget	18
Schedule of Capital Assets	19
Transportation Development Act Article 3 Fund	
Basic Financial Statements:	
Balance Sheets	20
Statements of Revenues, Expenditures and Changes in Fund Balance	21
Notes to Funds Financial Statements	22
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>	27
Schedule of Findings on Internal Control Over Financial Reporting	29

	<u>PAGE</u>
COMPLIANCE SECTION	
Report of Independent Auditors on Compliance	30
Compliance Matrix	33
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	37
EXIT CONFERENCE	47

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, the Proposition C Local Return Fund, the Measure R Local Return Fund, the Measure M 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, 2020 and 2019, and the related statements of revenues, expenditures and changes in fund balances for the years 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 City'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 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 qualified 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, the Measure M Local Return Fund and the Transportation Development Act Article 3 Fund of the City of South El Monte, California, as of June 30, 2020 and 2019, and the respective changes in financial position for the years 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 present only the Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund, the Measure M Local Return Fund and the Transportation Development Act Article 3 Fund of the City of South El Monte, California, and do not purport to, and do not present fairly the financial position of the City as of June 30, 2020 and 2019, and the changes in its financial position for the years 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 December 22, 2020, 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 solely 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 the effectiveness of the City's 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.

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

**Glendale, California
December 22, 2020**

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

		June 30	
		2020	2019
ASSETS			
Cash and investments	\$	1,285,364	\$ 956,541
Total assets	\$	1,285,364	\$ 956,541
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$	8,325	\$ 7,835
Accrued payroll and employee benefits		10,793	10,793
Due to General Fund		605,184	362,909
Total liabilities		624,302	381,537
Fund balance			
Restricted		661,062	575,004
Total fund balance		661,062	575,004
Total liabilities and fund balance	\$	1,285,364	\$ 956,541

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	
	2020	2019
Revenues		
Proposition A	\$ 405,179	\$ 418,828
Investment income	8,859	7,455
Cash fares	2,635	6,288
Total revenues	416,673	432,571
 Expenditures		
Various projects	330,615	431,334
Total expenditures	330,615	431,334
 Excess of revenues over expenditures	 86,058	 1,237
 Fund balance at beginning of year	 575,004	573,767
 Fund balance at end of year	 \$ 661,062	\$ 575,004

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, 2020
(With Comparative Actuals for 2019)

Project Code	Project Name	2020		Variance Positive (Negative)	2019 Actual
		LACMTA Budget	Actual		
120-01	Paratransit	\$ 294,000	\$ 231,408	\$ 62,592	\$ 298,269
130-02	Special Events	19,450	16,040	3,410	12,296
170-01	Bus Shelter Maintenance	75,000	62,823 *	12,177	74,618
300-01	Transportation Facility Enhancement and Lockers	500	565	(65)	-
480-04	Administration	40,000	19,779 *	20,221	46,151
Total expenditures		\$ 428,950	\$ 330,615	\$ 98,335	\$ 431,334

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

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, 2020

Date Acquired	Description	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
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
11/30/2016	Dodge Caravan	43,338	-	-	43,338
Total		\$ 403,960	\$ -	\$ -	\$ 403,960

See report of independent auditors.

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

		June 30	
		2020	2019
ASSETS			
Cash and investments		\$ 827,517	\$ 595,055
	Total assets	\$ 827,517	\$ 595,055
LIABILITIES AND FUND BALANCE			
Liabilities			
Account payable		\$ 17,138	\$ 5,831
Accrued payroll and employee benefits		1,664	1,665
Due to General Fund		5,609	21,180
	Total liabilities	24,411	28,676
Fund balance			
Restricted		803,106	566,379
	Total fund balance	803,106	566,379
	Total liabilities and fund balance	\$ 827,517	\$ 595,055

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	
	2020	2019
Revenues		
Proposition C	\$ 336,096	\$ 347,406
Investment income	8,056	3,139
Total revenues	344,152	350,545
 Expenditures		
Various projects	107,425	28,425
Total expenditures	107,425	28,425
 Excess of revenues over expenditures	236,727	322,120
 Fund balance at beginning of year	566,379	244,259
 Fund balance at end of year	\$ 803,106	\$ 566,379

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, 2020
(With Comparative Actuals for 2019)

Project Code	Project Name	2020		Variance Positive (Negative)	2019 Actual
		LACMTA Budget	Actual		
160-01	Bus Shelter (Project #408)	\$ 4,480	\$ 3,289	\$ 1,191	\$ 6,408
270-01	San Gabriel Valley Council of Governments Membership	3,300	3,250	50	3,250
400-02	Santa Anita and Fern/Elliott Signalization Project (#290)	153,486	70,619	82,867	11,025
400-03	Santa Anita and Fern/Elliott Signalization Project (#294)	66,426	814	65,612	6,255
400-05	Rush and Peck Signalization Project	46,093	8,724	37,369	-
480-02	Administration	15,000	20,729 *	(5,729)	1,487
Total expenditures		\$ 288,785	\$ 107,425	\$ 181,360	\$ 28,425

* 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, 2020

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2020</u>
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	
		2020	2019
ASSETS			
Cash and investments		\$ 835,043	\$ 607,775
	Total assets	\$ 835,043	\$ 607,775
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable		\$ -	\$ 10,071
Due to other funds		250,113	268,474
Accrued payroll and employee benefits		10,073	-
	Total liabilities	260,186	278,545
Fund balance			
Restricted		574,857	329,230
	Total fund balance	574,857	329,230
	Total liabilities and fund balance	\$ 835,043	\$ 607,775

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	
	2020	2019
Revenues		
Measure R	\$ 251,712	\$ 260,629
Investment income	5,104	4,460
Total revenues	256,816	265,089
 Expenditures		
Various projects	11,189	276,774
Total expenditures	11,189	276,774
 Excess (deficiency) of revenues over expenditures	245,627	(11,685)
 Fund balance at beginning of year	329,230	340,915
 Fund balance at end of year	\$ 574,857	\$ 329,230

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, 2020
(With Comparative Actuals for 2019)

Project Code	Project Name	2020			2019 Actual
		LACMTA Budget	Actual	Variance Positive (Negative)	
1.05	Street and Sidewalk Improvement and Maintenance	\$ 276,671	\$ 6,977 *	\$ 269,694	\$ 272,934
1.25	Andrew/Thienes Sidewalk and ADA Ramp Project 288	70,000	-	70,000	-
2.29	Rush and Peck Signalization Project	-	-	-	540
2.29	Santa Anita and Central Protected Left Turn Phases	23,430	-	23,430	-
2.29	Rush & Peck Signalization Project (Matching Funds)	49,900	-	49,900	-
7.10	San Gabriel Valley Council of Governments	3,300	3,300	-	3,300
8.10	Fund Administration	8,695	912 *	7,783	-
Total expenditures		\$ 431,996	\$ 11,189	\$ 420,807	\$ 276,774

* 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, 2020

<u>Date Acquired</u>	<u>Description</u>	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2020</u>
N/A	None	\$ -	\$ -	\$ -	\$ -
Total		\$ -	\$ -	\$ -	\$ -

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

		June 30	
		2020	2019
ASSETS			
Cash and investments		\$ 563,239	\$ 325,910
	Total assets	\$ 563,239	325,910
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable		\$ -	\$ 10,270
Due to General Fund		12,561	40,040
	Total liabilities	12,561	50,310
Fund balance			
Restricted		550,678	275,600
	Total fund balance	550,678	275,600
	Total liabilities and fund balance	\$ 563,239	\$ 325,910

See notes to Funds financial statements.

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

	Years ended June 30	
	2020	2019
Revenues		
Measure M	\$ 283,430	\$ 293,448
Investment income	4,384	2,694
Total revenues	287,814	296,142
Expenditures		
Various projects	12,736	232,575
Total expenditures	12,736	232,575
Excess of revenues over expenditures	275,078	63,567
Fund balance at beginning of year	275,600	212,033
Fund balance at end of year	\$ 550,678	\$ 275,600

See notes to Funds financial statements.

City of South El Monte
Measure M Local Return Fund
Supplementary Information
Schedule of Expenditures – Actual and LACMTA Approved Project Budget
Year ended June 30, 2020
(With Comparative Actuals for 2019)

Project Code	Project Name	2020		Variance Positive (Negative)	2019 Actual
		LACMTA Budget	Actual		
1.05	Alesia Street and Lerma Road Improvements	\$ -	\$ -	\$ -	\$ 86,887
1.20	Thienes and Tyler Intersection Signalization Project	-	-	-	66,100
1.20	Safety Street Light Design from Santa Anita/Tyler to Fawcett	917	-	917	24,419
1.90	City-Wide Safety Curb Painting	-	-	-	12,435
1.90	Civic Center and Interjurisdictional Bikeway Project	160,000	-	160,000	-
7.10	Vehicle Miles Travelled Analysis (SGVCOG)	14,855	12,229	2,626	-
8.10	Administration	5,000	507 *	4,493	42,734
Total expenditures		\$ 180,772	\$ 12,736	\$ 168,036	\$ 232,575

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

See report of independent auditors.

City of South El Monte
Measure M Local Return Fund
Supplementary Information
Schedule of Capital Assets
Year ended June 30, 2020

Date Acquired	Description	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
N/A	None	\$ -	\$ -	\$ -	\$ -
Total		\$ -	\$ -	\$ -	\$ -

See report of independent auditors.
 19

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

		June 30	
		2020	2019
ASSETS			
Cash		\$ -	\$ -
	Total assets	\$ -	\$ -
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable		\$ -	\$ -
	Total liabilities	-	-
Fund balance			
Restricted		-	-
	Total fund balance	-	-
	Total liabilities	\$ -	\$ -

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	
		2020	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 report of independent auditors.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The operations of the Proposition A Local Return Fund (PALRF), the Proposition C Local Return Fund (PCLRF), the Measure R Local Return Fund (MRLRF), the Measure M Local Return Fund (MMLRF) and the Transportation Development Act Article 3 Fund (TDAA3F) (collectively, the Funds) of the City of South El Monte (the City) 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 the county-wide ½ cent Measure R 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.

MMLRF is derived from 17% of the county-wide ½ cent Measure M 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, MMLRF 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 based on budgets approved by LACMTA and 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*, 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 (CAFR) for detailed disclosures regarding the City's investments policy and fair value measurement disclosures.

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, MMLRF and TDAA3F report the following fund balance classification as of June 30, 2020 and 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 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 the City's CAFR.

NOTE 2 ANNUAL FINANCIAL STATEMENTS

The financial statements reflect only the financial position and results of operations of the PALRF, PCLRF, MRLRF, MMLRF and TDAA3F, and do not purport to, and do not present fairly the City's financial position as of June 30, 2020 and 2019, and the changes in its financial position for the years 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.

Proposition A and Proposition C LR funds must be expended within three years of the last day of the fiscal year in which funds were originally allocated.

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.

Measure R LR funds must be expended within five years of the first day of the fiscal year in which funds were originally allocated or received.

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 MEASURE M LOCAL RETURN COMPLIANCE REQUIREMENTS

Measure M was approved by the voters of Los Angeles County on November 8, 2016 to improve transportation and ease traffic congestion consistent with the Los Angeles County Traffic Improvement Plan Ordinance approved by the Metro Board of Directors on June 23, 2016. The Measure M Ordinance specifies that LR funds be used exclusively for transportation purposes.

Measure M LR funds must be expended within five years of the first day of the fiscal year in which funds were originally allocated or received.

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

NOTE 6 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 7 CASH AND INVESTMENTS

The PALRF, PCLRF, MRLRF, MMLRF 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 CAFR for a full description of risks relating to cash and investments.

NOTE 8 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, 2020, the City has funds on reserve as follows:

	2020	2019
FY 2016/17 allocation	\$ 13,158	\$ 13,158
FY 2017/18 allocation	13,567	13,567
FY 2018/19 allocation	14,154	14,154
FY 2019/20 allocation	15,091	-
Total reserve	\$ 55,970	\$ 40,879

For FY 2019/20, any TDA Article 3 funds left on reserve for FY 2015/16 or prior, are subject to lapse if not claimed by the City by June 30, 2020. There were no funds that lapsed in FY 2019/20.

The City did not drawdown any TDA Article 3 funds during the fiscal year ended June 30, 2020 and 2019.

NOTE 9 SUBSEQUENT EVENTS

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries. To date, it is unknown how long these conditions will last and what the complete financial effect will be to businesses and other affected organizations, including local governmental entities. However, management does not expect the impact to be material to the Funds' June 30, 2020 financial statements.

The City has evaluated events subsequent to June 30, 2020 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through December 22, 2020, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no other 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 Proposition A Local Return Fund, the Proposition C Local Return Fund, the Measure R Local Return Fund, the Measure M 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, 2020, and the related notes to the financial statements, and have issued our report thereon dated December 22, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the Funds' financial statements, we considered the City's internal control over the Funds' financial reporting (internal control) as a basis for designing 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 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 2020-001 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 Proposition A Local Return Fund, Proposition C Local Return Fund, Measure R Local Return Fund, Measure M 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 financial statements. 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.

**Glendale, California
December 22, 2020**

Finding No. FS 2020-001: Year-end Closing Process

Criteria

Section V of the Proposition A and Proposition C Local Return Guidelines, Section VII of the Measure R Local Return Guidelines and Section XXV of the Measure M Local Return 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

The City lost several key employees in the finance and accounting department during the fiscal year 2019. As such, there was a delay in the closing of the City's books for the fiscal year 2019 and 2020. 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 hired a new management team with solid accounting and finance background. The team was able to catch up and update the City's records including the preparation and review of the bank reconciliation statements. The new management team in the Finance Department have put together procedures in place to ensure monthly and annual year-end closing processes are well documented and occur on time.

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, Measure M 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, 2020.

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, Measure M 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, 2020.



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 Questioned Costs as Findings #2020-001 through #2020-005. 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 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 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.

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.

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. We consider the deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as Finding #2020-002 to be a material weakness.

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. We consider the deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as Finding #2020-005 to be a significant deficiency.

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.

Vaughan & Company LLP

**Glendale, California
December 22, 2020**

**City of South El Monte
Compliance Matrix
Year ended June 30, 2020**

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			See Finding #2020-001
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 timely.	X				
8. Annual Expenditure Report (Form C) was submitted timely.	X				
9. Cash or cash equivalents are maintained.	X				
10. Accounting procedures, record keeping and documentation are adequate.		X		PALRF: \$82,602 PCLRF: \$20,729	See Finding #2020-002
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 timely.		X			See Finding #2020-003

See report of independent auditors on compliance.

**City of South El Monte
Compliance Matrix
Year ended June 30, 2020**

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		\$7,889	See Finding #2020-004
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				
7. Expenditure Plan (Form One) was submitted timely.	X				
8. Expenditure Report (Form Two) was submitted timely.	X				
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 timely.			X		

See report of independent auditors on compliance.

**City of South El Monte
Compliance Matrix
Year ended June 30, 2020**

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
C. Measure M Local Return Fund					
1. Funds were expended for transportation purposes.		X		\$507	See Finding #2020-005
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 M Local Return Account was established.	X				
5. Revenues received including allocations, project generated revenues and interest income was properly credited to the Measure M Local Return Account.	X				
6. Funds were expended with LACMTA's approval.	X				
7. Expenditure Plan (Form M-One) was submitted timely.	X				
8. Expenditure Report (Form M-Two) was submitted timely.	X				
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 timely.			X		

See report of independent auditors on compliance.

**City of South El Monte
Compliance Matrix
Year ended June 30, 2020**

Compliance Requirements	In Compliance			Questioned Costs	If no, provide details and management response.
	Yes	No	N/A		
D. 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 2019/20.

See report of independent auditors on compliance.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of South El Monte
Schedule of Findings and Questioned Costs
Year ended June 30, 2020**

PCLRF: Finding #2020-001

Compliance Reference	Section I(C) Project Description Form (Form A) of the Proposition A and C Local Return Guidelines states that, "Jurisdiction shall submit for approval a Project Description Form (Form A) prior to the expenditure of funds: 1) a new project; 2) a new route; 3) a 25 percent change (increase or decrease) in route or revenue vehicle miles for an established LR funded transit service; 4) a 0.75 miles or greater service change that duplicates/overlays an existing transit service; or 5) a 25 percent or greater change in an approved LR project budget or scope on all operating or capital LR projects."
Condition	<p>The City exceeded LACMTA's approved budget by more than 25% without obtaining approval through a revised Form A for PCLRF's Project code 480-02, Administration. Amount in excess of 25 percent of the approved budget was \$1,979.</p> <p>Projects with greater than 25 percent change from the approved project budget should be amended by submitting a Project Description Form (Form A).</p> <p>The City submitted a Form A to the LACMTA Program Manager and obtained a retroactive approval of the project on November 19, 2020.</p>
Cause	Due to COVID-19, the deadline to submit the form was overlooked. However, the City has been working diligently to catch up on all its compliance filings.
Effect	The City's PCLRF project expenditures exceeded 25 percent of LACMTA's approved budget without LACMTA's approval which resulted in the City noncompliance with the Guidelines.
Recommendation	We recommend that the City submit a revised Form A to obtain LACMTA's approval for the change in project budget and implement internal control to ensure compliance with this requirement at all times.
Management's Response	Going forward, the City intends to check the amounts recorded per GL throughout the year to make sure that the City does not exceed what has been already approved, or seek approval prior to going over, in order not to request approval in retrospect.
Finding Corrected During the Audit	LACMTA Program Manager granted retroactive approval of the said project on November 19, 2020. No additional follow up is required.

PALRF and PCLRF: Finding #2020-002

Compliance Reference	<p>Proposition A and Proposition C Local Return Guidelines (Guidelines) Section II states that, "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". Also, Section V 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 Guideline".</p> <p>On February 14, 2019, the LACMTA Local Return Program Manager re-affirmed the memo issued on April 29, 2014 addressed to all Jurisdictions to provide clarification for adequate salary and related costs documentations for the audit of the Local Return funds.</p> <p>Below are recommendations to ensure that jurisdictions have adequate evidence to support its compliance with the Local Return Guidelines:</p> <ol style="list-style-type: none"> 1. All hours are required to be documented. Develop and/or maintain a system that will keep track of actual hours worked by employees whose salaries and benefits were charged to the LACMTA project. Expenditures claimed based solely on budgeted amounts is not considered adequate documentation because it does not reflect actual expenditures incurred on the LACMTA Project and do not provide adequate evidence that labor hours charged has transit/transportation purpose. The record of hours worked must: a) identify the LACMTA project, b) be authenticated by the employee and approved by his/her immediate supervisor, and c) tie to hours reported in the payroll records. 2. Provide adequate support for indirect costs. For indirect expenditures allocated to LACMTA projects, develop and/or maintain a system that distributes allowable expenditures to projects based on causal or beneficial relationships. Expenditures cannot be claimed on LACMTA project if the expenditures are not allowable (i.e., not transportation or transit related) or not allocable to the LACMTA project (i.e., LACMTA project did not cause the incurrence of the expenditure or LACMTA project did not benefit from the expenditure).
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City of South El Monte
Schedule of Findings and Questioned Costs
Year ended June 30, 2020

PALRF and PCLRF: Finding #2020-002 (Continued)

Condition	<p>The City claimed salaries and benefits expenditures under the following projects:</p> <p><u>PALRF:</u></p> <p>a) Project code 170-01, Bus Shelter Maintenance, total amount of \$62,823; and</p> <p>b) Project code 480-02, Administration, total amount of \$19,779</p> <p><u>PCLRF:</u></p> <p>a) Project code 480-02, Administration, total amount of \$20,729</p> <p>The salaries and benefits claimed under PALRF and PCLRF of \$82,602 and \$20,729, respectively, are based on budget and are not supported by actual time charges and documented time study or indirect cost allocation plan for administrative charges.</p> <p>This is a repeat finding from prior year's audit.</p>
Cause	<p>In fiscal year 2020, the City made a switch from predetermined allocation per City adopted budget to timesheet. However, due to the year being a transition year, HR and Payroll setup had to be reevaluated numerous times, as the City encountered situations in which only salaries appeared in special revenue funds without benefits or overhead.</p>
Effect	<p>If the labor charges are not supported by actual time charges and documented time study or indirect cost allocation plan, the costs are considered unallowable and the Guidelines require the City to return the money to the Local Return Funds.</p>
Recommendation	<p>We recommend that the City provide documentation to support the salaries and benefit charges to PALRF and PCLRF. If these documents are not provided, the City is required to reimburse its PARLF and PCLRF accounts the amount of \$82,602 and \$20,729, respectively.</p> <p>In addition, we recommend that the City establish controls to ensure that the salaries and benefits charged to the Local Return funds are adequately supported by timesheets, payroll registers, personnel action forms with job descriptions, or similar documentation as required by the Guidelines.</p>

PALRF and PCLRF: Finding #2020-002 (Continued)

Management's Response	<p>In order to systematically irradiate any unnecessary complexity and confusion regarding reimbursable labor cost going forward, the City intends to accomplish the following:</p> <ol style="list-style-type: none">1. Complete the cost and fee study currently being conducted by NBS, who were selected through a formal RFP process. Once the study is complete, the fully burdened hourly rate of each employee will be known.2. Default all City employee labor hours to the General Fund.3. Require all City employee to track labor hours spent working on special revenue fund projects on timesheets.4. Have the special revenue funds reimburse the General Fund based on employee's fully burdened hourly rate multiplied by the actual hours worked per timesheet.
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City of South El Monte
Schedule of Findings and Questioned Costs
Year ended June 30, 2020

PALRF and PCLRF: Finding #2020-003

Compliance Reference	Under Section III(A) Reporting Requirements for Jurisdictions, Annual Expenditure Report (Form C) of the Proposition A and Proposition C Local Return Guidelines, "For Jurisdictions with Recreational Transit projects, Jurisdictions are required to annually submit an accounting of Recreational Transit trips, destinations and costs. This information should be submitted along with the Form C, no later than October 15 after the fiscal year".
Condition	The Recreational Transit Service Form was submitted on October 19, 2020, 4 days beyond the due date of October 15, 2020.
Cause	Due to COVID-19, the deadline to submit the form was overlooked. However, the City has been working diligently to catch up on all its compliance filings.
Effect	The City was not in compliance with the reporting requirements of the Local Return Guidelines.
Recommendation	We recommend that the City establish procedures and controls to ensure that the Annual Recreational Transit Service Form is submitted by October 15 as required by the Guidelines.
Management's Response	Going forward, the City will place this item on its Outlook Calendar to send automatic reminder notice(s) so that it will be submitted prior to the due date.
Finding Corrected During the Audit	The City subsequently submitted the Recreational Transit Service Form. No follow up is required.

MRLRF: Finding #2019-004

Compliance Reference	<p>Measure R Local Return Guidelines Section (A) (I) states that, “The Measure R ordinance specifies that LR funds are to be used for transportation purposes. No net revenues distributed to Jurisdictions may be used for purposes other than transportation purposes”. Also, Section VII 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 Guideline”.</p> <p>On February 14, 2019, the LACMTA Local Return Program Manager re-affirmed the memo issued on April 29, 2014 addressed to all Jurisdictions to provide clarification for adequate salary and related costs documentations for the audit of the Local Return funds.</p> <p>Below are recommendations to ensure that jurisdictions have adequate evidence to support its compliance with the Local Return Guidelines:</p> <ol style="list-style-type: none"> 1. All hours are required to be documented. Develop and/or maintain a system that will keep track of actual hours worked by employees whose salaries and benefits were charged to the LACMTA project. Expenditures claimed based solely on budgeted amounts is not considered adequate documentation because it does not reflect actual expenditures incurred on the LACMTA project and do not provide adequate evidence that labor hours charged has transit/transportation purpose. The record of hours worked must: a) identify the LACMTA project, b) be authenticated by the employee and approved by his/her immediate supervisor, and c) tie to hours reported in the payroll records. 2. Provide adequate support for indirect costs. For indirect expenditures allocated to LACMTA projects, develop and/or maintain a system that distributes allowable expenditures to projects based on causal or beneficial relationships. Expenditures cannot be claimed on LACMTA project if the expenditures are not allowable (i.e., not transportation or transit related) or not allocable to the LACMTA project (i.e., LACMTA project did not cause the incurrence of the expenditure or LACMTA project did not benefit from the expenditure).
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**City of South El Monte
Schedule of Findings and Questioned Costs
Year ended June 30, 2020**

MRLRF: Finding #2020-004 (Continued)

Condition	<p>The City claimed salaries and benefits expenditures under the following projects:</p> <ul style="list-style-type: none"> a) Project code 1.05, Street and Sidewalk Improvement and Maintenance, total amount of \$6,977; and b) Project code 8.10, Administration, total amount of \$912. <p>The salaries and benefits claimed are based on budget and are not supported by actual time charges and documented time study or indirect cost allocation plan for administrative charges.</p>
Cause	<p>In fiscal year 2020, the City made a switch from predetermined allocation per City adopted budget to timesheet. However, due to the year being a transition year, HR and Payroll setup had to be reevaluated numerous times, as the City encountered situations in which only salaries appeared in special revenue funds without benefits or overhead.</p>
Effect	<p>If the labor charges are not supported by actual time charges and documented time study or indirect cost allocation plan, the costs are considered unallowable and the Guidelines require the City to return the money to the Local Return Funds.</p>
Recommendation	<p>We recommend that the City provide documentation to support the salaries and benefit charges to MRLRF. If these documents are not provided, the City is required to reimburse its MRLRF account the amount of \$7,889.</p> <p>In addition, we recommend the City establish controls to ensure that the salaries and benefits charged to the Local Return funds are adequately supported by timesheets, payroll registers, personnel action forms with job descriptions, or similar documentation as required by the Guidelines.</p>

MRLRF: Finding #2020-004 (Continued)

Management's Response	<p>In order to systematically irradicate any unnecessary complexity and confusion regarding reimbursable labor cost going forward, the City intends to accomplish the following:</p> <ol style="list-style-type: none">1. Complete the cost and fee study currently being conducted by NBS, who were selected through a formal RFP process. Once the study is complete, the fully burdened hourly rate of each employee will be known.2. Default all City employee labor hours to the General Fund.3. Require all City employee to track labor hours spent working on special revenue fund projects on timesheets.4. Have the special revenue funds reimburse the General Fund based on employee's fully burdened hourly rate multiplied by the actual hours worked per timesheet.
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MMLRF: Finding #2020-005

Compliance Reference	<p>Measure M Local Return Guidelines Section XXV Program Objectives states that, “The Measure M Ordinance specifies that LR funds are to be used for transportation purposes. No net revenues distributed to Jurisdictions may be used for purposes other than transportation purposes”. Also, Section XXV, Administrative, Audit Requirements 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”.</p> <p>On February 14, 2019, the LACMTA Local Return Program Manager re-affirmed the memo issued on April 29, 2014 addressed to all Jurisdictions to provide clarification for adequate salary and related costs documentations for the audit of the Local Return funds.</p> <p>Below are recommendations to ensure that jurisdictions have adequate evidence to support its compliance with the Local Return Guidelines:</p> <ol style="list-style-type: none"> 1. All hours are required to be documented. Develop and/or maintain a system that will keep track of actual hours worked by employees whose salaries and benefits were charged to the LACMTA project. Expenditures claimed based solely on budgeted amounts is not considered adequate documentation because it does not reflect actual expenditures incurred on the LACMTA project and do not provide adequate evidence that labor hours charged has transit/transportation purpose. The record of hours worked must: a) identify the LACMTA project, b) be authenticated by the employee and approved by his/her immediate supervisor, and c) tie to hours reported in the payroll records. 2. Provide adequate support for indirect costs. For indirect expenditures allocated to LACMTA projects, develop and/or maintain a system that distributes allowable expenditures to projects based on causal or beneficial relationships. Expenditures cannot be claimed on LACMTA project if the expenditures are not allowable (i.e., not transportation or transit related) or not allocable to the LACMTA project (i.e., LACMTA project did not cause the incurrence of the expenditure or LACMTA project did not benefit from the expenditure).
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**City of South El Monte
Schedule of Findings and Questioned Costs
Year ended June 30, 2020**

MMLRF: Finding #2019-005 (Continued)

Condition	<p>The City claimed salaries and benefits expenditures under project code 8.10, Administration, of \$507 which is based on budget and are not supported by actual time charges.</p> <p>This is a repeat finding from prior year's audit.</p>
Cause	<p>In fiscal year 2020, the City made a switch from predetermined allocation per City adopted budget to timesheet. However, due to the year being a transition year, HR and Payroll setup had to be reevaluated numerous times, as the City encountered situations in which only salaries appeared in special revenue funds without benefits or overhead.</p>
Effect	<p>If the labor charges are not supported by actual time charges and documented time study or indirect cost allocation plan, the costs are considered unallowable and the Guidelines require the City to return the money to the Local Return Funds.</p>
Recommendation	<p>We recommend that the City provide documentation to support the salaries and benefit charges to MMLRF. If these documents are not provided, the City is required to reimburse its MMLRF account the amount of \$507.</p> <p>In addition, we recommend City establish controls to ensure that the salaries and benefits charged to the Local Return funds are adequately supported by timesheets, payroll registers, personnel action forms with job descriptions, or similar documentation as required by the Guidelines.</p>
Management's Response	<p>In order to systematically irradicate any unnecessary complexity and confusion regarding reimbursable labor cost going forward, the City intends to accomplish the following:</p> <ol style="list-style-type: none"> 1. Complete the cost and fee study currently being conducted by NBS, who were selected through a formal RFP process. Once the study is complete, the fully burdened hourly rate of each employee will be known. 2. Default all City employee labor hours to the General Fund. 3. Require all City employee to track labor hours spent working on special revenue fund projects on timesheets. 4. Have the special revenue funds reimburse the General Fund based on employee's fully burdened hourly rate multiplied by the actual hours worked per timesheet.

EXIT CONFERENCE

An exit conference was held on December 21, 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:
Masami Higa – Interim Finance Manager

Matters discussed:

Results of the audit disclosed instances of noncompliance with the Guidelines and 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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