

CITY OF MONTEREY PARK, CALIFORNIA
SINGLE AUDIT OF FEDERALLY ASSISTED
GRANT PROGRAMS

JUNE 30, 2018

CITY OF MONTEREY PARK

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Mayor and
Members of City Council
City of Monterey Park
Monterey Park, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Monterey Park, California (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 30, 2018.

Internal Control over Financial Reporting

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

Internal Control over Financial Reporting (Continued)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Finding Numbers 2018-001 and 2018-002, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's 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 did not disclose any instances of noncompliance that are required to be reported under Government Auditing Standards.

We noted certain other matters that we have reported to management and the City Council in a separate letter dated November 30, 2018.

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 them.

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.

White Nelson Dick Evans LLP

Irvine, California
November 30, 2018

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE AND ON THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS

The Honorable Mayor and
Members of City Council
City of Monterey Park
Monterey Park, California

Report on Compliance for Each Major Federal Program

We have audited the City of Monterey Park, California's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2018. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal 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 for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated November 30, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

White Nelson Dick Evans LLP

Irvine, California

March 12, 2019, except for our Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance, for which the date is November 30, 2018

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

CITY OF MONTEREY PARK

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2018

Federal Grantor / Pass - Through Grantor / Program	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Housing and Urban Development:				
Direct Programs:				
CDBG - Entitlement Grants:				
Community Development Block/Entitlement Grants	14.218	B-14-MC-06-0548	\$ 62,830	\$ -
Community Development Block/Entitlement Grants	14.218	B-15-MC-06-0548	160,964	-
Community Development Block Grants/Entitlement Grants	14.218	B-16-MC-06-0548	237,843	-
Community Development Block Grants/Entitlement Grants	14.218	B-17-MC-06-0548	49,863	-
Total CDBG - Entitlement Grants			<u>511,500</u>	<u>-</u>
HOME Investment Partnerships Program	14.239	M-13-MC-06-0550	183,434	-
HOME Investment Partnerships Program	14.239	M-14-MC-06-0550	25,283	-
HOME Investment Partnerships Program	14.239	M-15-MC-06-0550	4,898	-
HOME Investment Partnerships Program	14.239	M-16-MC-06-0550	8,712	-
HOME Investment Partnerships Program	14.239	M-17-MC-06-0550	58,122	-
Total HOME Investment Partnerships Program			<u>280,449</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development			<u>791,949</u>	<u>-</u>
U.S. Department of Justice:				
Direct Programs:				
Bulletproof Vest Partnership Program	16.607	2015BUBX15075628	3,465	-
Equitable Sharing Program	16.922	CA0194800	38,216	-
Total U.S. Department of Justice			<u>41,681</u>	<u>-</u>
U.S. Department of the Treasury:				
Direct Programs:				
Treasury Asset Equitable Sharing Program	21.000	CA0194800	257,331	-
Total U.S. Department of Treasury			<u>257,331</u>	<u>-</u>
U.S. Department of Education:				
Passed through the County of Los Angeles				
Adult Education - Basic Grants to States	84.002	V002A150005	77,268	-
Total U.S. Department of Education			<u>77,268</u>	<u>-</u>
U.S. Department of Homeland Security:				
Direct Programs:				
Homeland Security Grant Program:				
Urban Area Security Initiative 2015	97.067	EMW-2015-SS-00078	89,427	-
Urban Area Security Initiative 2016	97.067	2016-DJ-BX-0246	707,486	-
Homeland Security Grant - 2015	97.067	EMS-2015-SS-0078	10,000	-
Total U.S. Department of Homeland Security			<u>806,913</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,975,142</u>	<u>\$ -</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

CITY OF MONTEREY PARK

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2018

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of Monterey Park, California (the City) under programs of the federal government as well as federal financial assistance passed through other government agencies for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial statements of the City. The City's reporting entity is defined in Note 1 of the notes to the City's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the Schedule are reported using the modified accrual basis of accounting for governmental funds and the accrual basis for proprietary funds, which is described in Note 1 of the notes to the City's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. INDIRECT COST RATE:

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

4. RELATIONSHIP TO COMPREHENSIVE ANNUAL FINANCIAL REPORT:

Amounts reported in the accompanying Schedule agree to amounts reported within the City's Comprehensive Annual Financial Report.

5. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule agree with amounts reported in federal financial reports.

CITY OF MONTEREY PARK

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)

For the year ended June 30, 2018

6. SECTION 108 LOAN OUTSTANDING:

In August 2002, the City participated in the U.S. Department of Housing and Urban Development (HUD) Section 108 Loan Guarantee Program and received note proceeds of \$6,500,000. The City had expended the loan proceeds in prior years for the development of the Market Place project. On May 28, 2015, the City participated in the HUD refinancing program and refinanced the Section 108 Loan for a fixed rate note (Series 2015 A Certificates). Interest payments are made semiannually on August 1 and February 1. Principal payments are made on August 1 of each year and continue until August 2022. At June 30, 2018, the City had an outstanding loan balance of \$2,403,000.

7. CONTINGENCIES:

Under the terms of federal and state grants, additional audits may be requested by the grantor agencies and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

CITY OF MONTEREY PARK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2018

1. SUMMARY OF AUDITORS' RESULTS:

Financial Statements

Type of auditors' report issued:

- Unmodified

Internal control over financial reporting:

- Material weakness identified? ___ yes x no
- Significant deficiency identified? x yes ___ none reported
 Finding Number 2018-001
 Finding Number 2018-002

Noncompliance material to financial statements noted: ___ yes x no

Federal Awards:

Internal control over major programs:

- Material weakness identified? ___ yes x no
- Significant deficiency identified? ___ yes x none reported

Type of auditors' report issued on compliance for major programs:

- Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a) of the Uniform Guidance?

___ yes x no

Identification of major programs:

CFDA Number
97.067

Name of Federal Program or Cluster
Homeland Security Grant Program

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

x yes ___ no

CITY OF MONTEREY PARK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2018

2. FINDINGS - FINANCIAL STATEMENT AUDIT:

SIGNIFICANT DEFICIENCY

Finding 2018-001

Criteria

An important part of financial reporting is ensuring proper cutoff of all financial transactions occurs whereby the reporting of such transactions coincides with the period in which such services are rendered.

Condition

We identified an invoice related to street resurfacing projects that involved the release of final retention payouts for services performed during fiscal year ended June 30, 2018; however, the retention invoice was not properly accrued as a liability at June 30, 2018.

Cause

The City did not evaluate accounts payable subsequent to their year-end cut-off date for possible accrual.

Effect

A material audit adjusting entry was made to record the liability and the related construction in progress.

Recommendation

We recommend enhancing established cutoff procedures related to accrued liabilities so that more focus is placed on activity related to CIP projects in order to ensure that all CIP expenditures incurred during the year have been accurately captured.

Management's Response

Current City policy and procedures surrounding accounts payable cutoff is to maintain the system open through August 31st each year which parallels the City's timely payments to vendors. Going forward, the City will evaluate current processes whereby transactions after August 31st are also reviewed in order to ensure we capture all transactions in the proper accounting period.

CITY OF MONTEREY PARK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2018

2. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED):

SIGNIFICANT DEFICIENCY

Finding Number 2018-002

Condition

An important part of financial reporting is ensuring proper cutoff of all financial transactions occurs whereby the reporting of such transactions coincides with the period in which such services are rendered.

Criteria

We noted that the City had recorded deferred revenue (a liability) related to a grant receivable in the Water Enterprise Fund. Since the basis of accounting for an enterprise fund is full accrual, the revenue related to the grant receivable should have been recognized.

Cause

The City did not have a review process in place to properly identify revenue for an enterprise fund on a full accrual basis.

Effect

A material audit adjusting entry was made to reclass deferred revenue to revenue.

Recommendation

We recommend establishing an additional review procedure when finalizing the grant receivables/revenues during the year-end closing process to ensure that grants related to enterprise funds are properly accounted for on a full accrual basis.

Management's Response

The City will include a grant revenue accrual review process as a part of our routine year-end procedures, effective 2018-2019. The City will ensure that any enterprise funds related grants be properly accounted for on a full accrual basis.

CITY OF MONTEREY PARK

SUMMARY OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2018

3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT:

None

CITY OF MONTEREY PARK
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2018

1. FINDINGS - FINANCIAL STATEMENT AUDIT:

SIGNIFICANT DEFICIENCY

Finding Number 2017-001 – Unrecorded Liability

This finding has not been fully resolved. See Finding 2018-001.

2. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT:

No findings and questioned costs related to the City's major federal programs were reported for the year ended June 30, 2017.