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April 7, 2011

To the Management of
City of Montebello
Montebello, California

In planning and performing our audit of the financial statements of the City of Montebello, California (City) as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, in a separate report on compliance and internal control over financial reporting, we identified certain deficiencies in internal control that we consider to be significant deficiencies and/or material weaknesses. As discussed below, we also identified other opportunities for improvement of internal control, which we believe warrant management's attention.

Management's responses to our comments are described below. We did not audit the management's responses and, accordingly, we express no opinion on the responses. We will review the status of these comments and management's responses during our next audit engagement. We have already discussed many of these comments and recommendations with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Payroll

City employees are not required to sign their time cards as a matter of policy. Time cards are sometimes signed with a pencil, rather than with a pen (that cannot be easily altered). We recommend requiring employees to sign their time cards in ink. Supervisors should also review and approve the time cards regularly.

During our testing of payroll, we noted that direct deposit authorizations were destroyed for all employees who began employment in 2003 or earlier. The City staff agreed to request the authorizations from the respective employees. We recommend that the City establish a document retention policy for payroll to avoid the reoccurrence of errors such as this.

Management's response: The Interim City Administrator has directed all employees to sign their time cards in ink. Additionally, department heads have been instructed to have all time cards reviewed and signed off as reviewed by the supervisor(s) responsible for reviewing time cards. This administrative policy took effect in February 2011 after City departments were given an opportunity to work out the logistics of timely submission of employee time cards upon receipt of the required signatures by employee(s) and supervisor(s).

Notes Receivable

During our audit, we requested signed copies of note receivable agreements. City staff was unable to provide the signed agreement with Quiet Cannon Montebello, Inc. for a note receivable over \$2.4 million. In addition, we sent confirmation letters to a sample of home and business owners who have outstanding balances with the City or the Montebello Redevelopment Agency (Agency). Two out of 15 letters sent came back with incorrect addresses. Finally, City staff was unable to provide an accurate detail of Community Development Block Grant loans that agreed with the general ledger. We recommend that City staff update the City's records of notes receivables.

Management's response: City staff was unable to provide the signed agreement with Quiet Cannon Montebello, Inc. during the audit engagement. Subsequent to this management letter, a copy was provided. City staff will work on updating the City's records of notes receivables.

Related-party Transactions

We requested a listing of related parties and related-party events and transactions by the City and its component units for disclosure in the financial statements. We were informed that the City does not maintain such a listing. Related-party transactions are not routinely identified by City personnel. We recommend that policies and procedures be put into place to identify all related-party events and transactions. A schedule detailing them should be prepared and reviewed by management as part of year-end procedures.

Management's response: Policies and procedures will be established to identify all related-party events and transactions. A schedule detailing the transactions will be prepared by staff and reviewed by management as part of the year-end procedures.

Fund Balance and Net Assets

The Governmental Accounting Standards Board (GASB) requires fund balances and net assets to be classified into different categories. During our audit, we assisted the City staff in classifying the fund balances and net assets of the City and its component units. We recommend that City staff maintain adequate supporting documentation of net asset restrictions and fund balance reservations.

For periods beginning after June 15, 2010, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, will take effect. GASB Statement No. 54 revised the definitions of fund balance classifications. We recommend that City staff obtain the necessary knowledge and establish a process to implement the new pronouncement.

Management's response: Staff will obtain the necessary knowledge to establish a process to implement the new pronouncement.

Cut-off Procedures

Cash received at the Golf Course and various other City departments is not promptly posted in the general ledger in the proper accounting period. Management should design and implement appropriate internal control to improve cut-off procedures.

Management's response: Cash received at the Golf Course and various other City departments are deposited regularly. However, there is a timing difference between the deposits made and the records that are remitted to the Finance Department. Management will design and implement appropriate internal procedures to improve the timely receipt of deposit records for posting to the general ledger.

Minutes of Meetings of the City Council and the Agency's Board of Directors

During our audit, we noted that the minutes of meetings of the City Council and the Agency's Board of Directors were not approved until several months after the meeting. For example, the minutes for the meeting of the City Council on March 10, 2010 was approved on August 11, 2010. The minutes can be used to communicate to the City's employees the decisions, policies, and plans of the City Council and the Agency's Board of Directors. For the Finance Department staff who are responsible for maintaining the City's accounting records as well as financial reporting, the minutes can provide guidance on regulations that affect the City's accounting policies and procedures, significant judgments and estimates that need to be included in financial reports, information regarding related-party events and transactions, and other nonroutine events and transactions. The usefulness of the minutes is diminished if it is not approved and published on a timely basis.

Management's response: Given the recent fiscal constraints and changes to the City's staffing levels, the City Clerk's office has been understaffed. The Finance Department will forward this audit finding so that the City Clerk's office is made aware of this finding and appropriate changes can be made.

Federal Transit Cluster (CFDA No.'s 20.500 and 20.507)

The City is required to state whether 1% of 5307 funds apportioned for urbanized areas will be spent on transportation security projects in its grant agreements. During the conduct of the Single Audit, we noted several grant agreements that did not note whether funds would or would not be expended for security projects. We recommend that the City implement controls to monitor the requirements of grant agreements and ensure compliance.

Management's response: Regulation requires that the City spend 1% of 5307 funds or 1% equivalent for transit security. The City spent at least 1% equivalent local funds for transit security projects instead of using FTA 5307 funds.

This report is intended solely for the information and use of the City's management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Eadie and Payne LLP