

**CITY OF PALMDALE,
CALIFORNIA**

SINGLE AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2011**

CITY OF PALMDALE, CALIFORNIA
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2011

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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 Members of the City Council
City of Palmdale, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Palmdale, California (the City) as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 24, 2012. Our report refers to the City's adoption of the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* on July 1, 2010. Our report also refers to certain issues regarding the City of Palmdale Community Redevelopment Agency's (Agency), a component unit of the City, as a result of the impact of recent legislation for California Redevelopment Agencies. Additionally, our report also refers to information regarding several actions taken by the City and Agency including the transfer of certain assets by the Agency to the City. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Palmdale is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 misstatements on a timely basis. *A material weakness* is a deficiency, or 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City's management, City Council, the State Controller's Office, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vaurmole, Trine, Day, Co., LLP

Rancho Cucamonga, California
January 24, 2012



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE, AND THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Members of the City Council
City of Palmdale, California

Compliance

We have audited the City of Palmdale, California's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 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, 2011. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2011, and have issued our report thereon dated January 24, 2012. Our report refers to the City's adoption of the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* on July 1, 2010. Our report also refers to certain issues regarding the City of Palmdale Community Redevelopment Agency's (Agency), a component unit of the City, as a result of the impact of recent legislation for California Redevelopment Agencies. Additionally, our report also refers to information regarding several actions taken by the City and Agency including the transfer of certain assets by the Agency to the City. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City's management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vawter, Tami, Day, Co., LLP

Rancho Cucamonga, California

March 16, 2012, except for the Schedule of Expenditures of Federal Awards
as to which the date is January 24, 2012.

CITY OF PALMDALE, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title/Cluster	Grant Identification Number	Federal CFDA Number	Federal Program Expenditures
<u>U.S. Department of Energy:</u>			
Direct Assistance:			
ARRA - Energy Efficiency and Conservation Block Grant			
Parks and Rec Roof Repair - Admin	DE-SC0001400	81.128	\$ 9,380
Parks and Rec Roof Repair	DE-SC0001400	81.128	62,918
LED Lighting Retrofit	DE-SC0001400	81.128	8,117
HVAC Replacement - Admin	DE-SC0001400	81.128	7,970
HVAC Replacement	DE-SC0001400	81.128	116,189
EECS and Climate Action Planning	DE-SC0001400	81.128	85,141
County AB811 Program Support	DE-SC0001400	81.128	15,614
Safe Routes - Cimarron / Golden Schools	DE-SC0001400	81.128	8,108
Safe Routes - Cimarron / Golden Schools	DE-SC0001400	81.128	49,086
Traffic Signal Synchronization	DE-SC0001400	81.128	250,907
Total ARRA - Energy Efficiency and Conservation Block Grant [1]			613,430
Total U.S. Department of Energy			613,430
<u>U.S. Department of Homeland Security:</u>			
Passed-Through United Way-EFSP:			
Emergency Food and Shelter National Board Program Cluster:			
SAVES - Food	26-0695-00	97.024	23,007
SAVES - Shelter	26-0695-00	97.024	9,762
Total Emergency Food and Shelter National Board Program Cluster			32,769
Total U.S. Department of Homeland Security			32,769
<u>U.S. Department of Housing and Urban Development:</u>			
Direct Assistance:			
Community Development Block Grant - Entitlement Grants Cluster:			
Administration	B10MC060581	14.218	48,778
Fair Housing Council	B10MC060581	14.218	26,520
Greater LA Council on Deafness	B10MC060581	14.218	14,509
SAVES Administration	B10MC060581	14.218	230,000
ADA Compliance	B10MC060581	14.218	1,795
Focus Neighborhood #3 ADA Compliance	B08/B10MC060581	14.218	4,145
Focus Neighborhood #5 ADA Compliance	B08/B10MC060581	14.218	241,938
SAVES New Building Rehab	B10MC060581	14.218	43,692
Section 108 Loan Principal Payment	B10MC060581	14.248	199,000
Section 108 Loan Interest Payment	B10MC060581	14.248	215,410
Courson Connection Infrastructure	B07-10MC06581	14.218	18,528
ARRA - Administration	B09MY06581	14.253	4,890
Total Community Development Block Grant - Entitlement Grants Cluster			1,049,205

[1] Denotes Major Program

See accompanying notes to supplementary information.

CITY OF PALMDALE, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title/Cluster	Grant Identification Number	Federal CFDA Number	Federal Program Expenditures
<u>U.S. Department of Housing and Urban Development (Continued):</u>			
Neighborhood Stabilization Program (NSP 1)			
Neighborhood Stabilization Prog - Administration	B08MN060515	14.218	\$ 212,156
Neighborhood Stabilization Prog - HB Education	B08MN060515	14.218	4,100
Neighborhood Stabilization Prog - Capital	B08MN060515	14.218	5,542,271
WorkSource Center Facility Rehab	B08MN060515	14.218	452,500
			<u>6,211,027</u>
HOME Investment Partnerships Program:			
Administration	B-05/10-MC-06-0562	14.239	19,074
PSHP - 80 UNIT - Loan Balance	B-04/05-MC-06-0562	14.239	750,000
Courson - AMCAL 78 Unit	B-05/08-MC-06-0562	14.239	1,000,000
Transit Village Infrastructure	B-05/09-MC-06-0562	14.239	500
Sr Housing SCHDC-Loan addition	B-05/08-MC-06-0562	14.239	20,000
Total HOME Investment Partnerships Program [1]			<u>1,789,574</u>
Homelessness Prevention and Rapid Re-Housing Program:			
ARRA - Administration	S09-MY-06-0581	14.257	6,055
ARRA - Data Collection	S09-MY-06-0581	14.257	3,267
ARRA - HPRP Services	S09-MY-06-0581	14.257	217,460
Total Homeless Prevention and Rapid Re-Housing Program [1]			<u>226,782</u>
Total Direct Assistance			<u>9,276,588</u>
Passed-Through the California Department of Housing and Community Development:			
HOME Investment Partnerships Program:			
CSP-Courson (HCD HOME)-Loan Payable Balance	04-HOME-0662	14.239	2,850,000
CSP-Courson (HCD HOME)-Loan Receivable Balance	04-HOME-0662	14.239	2,850,000
Total State HOME Program [1]			<u>5,700,000</u>
Total U.S. Department of Housing and Urban Development			<u>14,976,588</u>
<u>U.S. Department of Justice:</u>			
Passed through the City of Los Angeles:			
JAG Program Cluster:			
Edward Byrne 2009 Memorial JAG Grant	2010-H8517-CA-DJ	16.738	70,080
ARRA - Edward Byrne Memorial Justice Assistance	2009SBB92024	16.804	155,480
Total JAG Cluster			<u>225,560</u>
Total U.S. Department of Justice			<u>225,560</u>

[1] Denotes Major Program

See accompanying notes to supplementary information.

CITY OF PALMDALE, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title/Cluster	Grant Identification Number	Federal CFDA Number	Federal Program Expenditures
<u>U.S. Department of Labor:</u>			
Passed-through the County of Los Angeles			
Workforce Investment Act Cluster (WIA):			
Workforce Investment Act - Adult	A091003	17.258	\$ 528,849
Workforce Investment Act - Dislocated Workers	DW091003	17.278	256,436
ARRA - Workforce Investment Act - Adult	ARRA-A091003	17.258	131,641
ARRA - Workforce Investment Act - Dislocated Worker	ARRA-DW091003	17.278	134,965
Total WIA Cluster [1]			<u>1,051,891</u>
Workforce Investment Act - Business Services Network PHI	EA190780960A6	17.261	97,770
Workforce Investment Act - Business Services Network PHII	EA190780960A6	17.261	721
			<u>98,491</u>
Total U.S. Department of Labor			<u>1,150,382</u>
<u>U.S. Department of Transportation</u>			
Passed-Through the State of California Department of Transportation:			
Highway Planning and Construction Cluster			
ARRA - Street Resurfacing [1]	ESPL-5378(019)	20.205	616,947
Total U.S. Department of Transportation			<u>616,947</u>
Total Expenditures of Federal Awards			<u>\$ 17,615,676</u>

[1] Denotes Major Program

See accompanying notes to supplementary information.

CITY OF PALMDALE, CALIFORNIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2011

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the City of Palmdale, California (the City). The City's reporting entity is defined in Note 1 of the City's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other governmental agencies and other nongovernmental to the City are included in the accompanying schedule.

B. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified-accrual basis of accounting, which is described in Note 1 of the City's financial statements.

C. Relationship to Basic Financial Statements

Federal awards revenues are generally reported within the City's financial statements under the financial statement caption "Intergovernmental Revenue" for the General and Special Revenue Funds.

D. Relationship to Federal Financial Reports

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree in all material respects with the amounts reported in the related federal financial reports. However, certain federal financial reports are filed based on cash expenditures. As such, certain timing differences may exist in the recognition of revenues and expenditures between the Schedule of Expenditures of Federal Awards and the federal financial reports.

NOTE #2 – AMOUNTS PROVIDED TO SUBRECIPIENTS

Of the federal expenditures presented in the accompanying schedule of expenditures of federal awards, the City provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Subrecipient</u>	<u>Amount Provided</u>
Community Development Block Grant	14.218	South Antelope Valley Emergency Services	\$ 230,000
Community Development Block Grant	14.218	Greater Los Angeles Agency on Deafness	14,509
Community Development Block Grant	14.218	Housing Rights Center	26,520
HOME Investment Partnerships Program	14.239	AMCAL Regency Partners, LP	1,000,000
Homeless Prevention and Rapid Re-Housing Program	14.257	Antelope Valley Domestic Violence Council	217,460
Workforce Investment Act	17.258/17.278	Goodwill Southern California	1,047,393
Total Amount Provided to Subrecipients			<u><u>\$2,535,882</u></u>

CITY OF PALMDALE, CALIFORNIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2011

NOTE #3 – OUTSTANDING LOANS OF FEDERAL FUNDS

The following schedules present the amount of outstanding loans receivable or payable by CFDA number. All loans with continuing compliance requirements are included on the accompanying Schedule of Expenditures of Federal Awards:

Loans Receivable:

CFDA No.	Federal Program	Outstanding Loans at June 30, 2011	Prior Year Loans with Continuing Compliance Requirements	New Loans in Fiscal Year Ended June 30, 2011
14.239	HOME Investment Partnership Act	\$ 2,850,000	\$ 2,850,000	\$ -
14.239	HOME Investment Partnership Act	1,000,000	1,000,000	-
14.239	HOME Investment Partnership Act	750,000	725,000	25,000

Loans Payable:

The City participates in certain federal award programs that sponsor revolving loan programs, which are administered by the City. The amount of the outstanding balance is not included in the Schedule of Expenditures of Federal Awards if there are no continuing compliance requirements for the remaining loan balance. However, amounts expended for repayment of the loan are included in the schedule in the amounts of \$199,000. The City had the following loan balances outstanding at June 30, 2011.

CFDA No.	Federal Program	Outstanding Loans at June 30, 2011	Prior Year Loans	Repayments	New Loans in Fiscal Year Ended June 30, 2011
14.218	Community Development Block Grant - Section 108 Loan Guarantees	\$ 4,383,000	\$ 4,582,000 (1)	\$ 199,999	\$ -
14.239	HOME	2,850,000	2,850,000	-	-

(1) These loans do not have continuing compliance requirements.

CITY OF PALMDALE, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2011

I. SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weakness identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
<u>81.128</u>	<u>Energy Efficiency and Conservation Block Grant (includes ARRA)</u>
<u>14.239</u>	<u>Home Investment Partnership Program</u>
<u>14.257</u>	<u>Homelessness Prevention and Rapid Re-Housing Program (includes ARRA)</u>
<u>17.258 / 17.278</u>	<u>Workforce Investment Act Cluster (includes ARRA)</u>
<u>20.205</u>	<u>Highway Planning and Construction Cluster (includes ARRA)</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 528,470</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

CITY OF PALMDALE, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

II. FINANCIAL STATEMENT FINDINGS

None reported.

CITY OF PALMDALE, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2011

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

CITY OF PALMDALE, CALIFORNIA

FOR THE YEAR ENDED JUNE 30, 2011

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Finding No.	Condition/Program	CFDA No.	Compliance Requirement	Status
2010-01	Homelessness Prevention and Rapid Re-Housing Program	14.257	Special Tests and Provisions	Implemented