

**CITY OF PALMDALE,
CALIFORNIA**

SINGLE AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2012**

CITY OF PALMDALE, CALIFORNIA
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2012
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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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 8, 2013. Our report was modified to include an explanatory paragraph relating to the dissolution of California Redevelopment Agencies and that the City has elected to become the Successor Agency for the former Community Redevelopment Agency of the City of Palmdale (Successor Agency). Additionally, our report also refers to information relating to cash held by the successor housing fund (formerly known as the Low and Moderate Income Housing Fund) that is currently being reviewed by the State of California. Our report also includes information relating to assets (properties held for resale, permits held for resale, and notes receivable) transferred from the City (previously transferred from the Agency to the City) back to the Successor Agency. 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 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. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2012-01 that we consider to be significant a deficiency in internal control over financial reporting. 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.

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*.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and accordingly, we express no opinion on it.

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.

Vermate, Tami, Day, Co., LLP

Rancho Cucamonga, California
March 8, 2013



**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, 2012. 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, 2012.

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 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, 2012, and have issued our report thereon dated March 8, 2013. Our report was modified to include an explanatory paragraph relating to the dissolution of California Redevelopment Agencies and that the City has elected to become the Successor Agency for the former Community Redevelopment Agency (CRA) of the City of Palmdale. Additionally, our report also refers to information relating to cash held by the successor housing fund (formerly known as the Low and Moderate Income Housing Fund) that is currently being reviewed by the State of California. Our report also includes information relating to assets (properties held for resale, permits held for resale, and notes receivable) transferred from the City (previously transferred from the Agency to the City) back to the Successor Agency. Our audit was conducted for the purpose of forming 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 is the responsibility of management and was derived from and relates directly to underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain audit procedures, including comparing and reconciling such information directly to the underlying accounting records used to prepare the financial statement or to the financial 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 financial statements as a whole.

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.

Vaurmick, Tami, Day, Co., LLP

Rancho Cucamonga, California
March 25, 2013

CITY OF PALMDALE, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/ProgramTitle/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			
LED Lighting Retrofit	DE-SC0001400	81.128	\$ 3,372
EECS and Climate Action Planning	DE-SC0001400	81.128	20,350
Energy Efficiency Outreach Program	DE-SC0001400	81.128	23,739
Safe Routes - Cimarron / Golden Schools	DE-SC0001400	81.128	365,911
Safe Routes - Cimarron / Golden Schools	DE-SC0001400	81.128	92,191
Total ARRA - Energy Efficiency and Conservation Block Grant [1]			<u>505,563</u>
Total U.S. Department of Energy			<u>505,563</u>
<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	26,142
SAVES - Shelter	26-0695-00	97.024	4,959
Total Emergency Food and Shelter National Board Program Cluster			<u>31,101</u>
Total U.S. Department of Homeland Security			<u>31,101</u>
<u>U.S. Department of Housing and Urban Development:</u>			
Direct Assistance:			
Community Development Block Grant - Entitlement Grants Cluster:			
Administration	B10MC060581	14.218	59,190
Fair Housing Council	B10MC060581	14.218	27,444
Greater LA Council on Deafness	B10MC060581	14.218	6,761
SAVES Administration	B10MC060581	14.218	198,390
ADA Compliance	B10MC060581	14.218	298,716
Focus Neighborhood #3 ADA Compliance	B08/B10MC060581	14.218	323,400
SAVES New Building Rehab	B10MC060581	14.218	643,103
Section 108 Loan Principal Payment	B10MC060581	14.218	204,000
Section 108 Loan Interest Payment	B10MC060581	14.218	208,254
Courson Connection Infrastructure	B07-10MC060581	14.218	279,368
ARRA-ADA Compliance	B09MY06581	14.253	24,950
ARRA - Administration	B09MY06581	14.253	121
Neighborhood Stabilization Program (NSP 1)			
Neighborhood Stabilization Program - Administration	B08MN060515	14.218	161,051
Neighborhood Stabilization Program - HB Education	B08MN060515	14.218	5,050
Neighborhood Stabilization Program - Capital	B08MN060515	14.218	719,906
Total Community Development Block Grant - Entitlement Grants Cluster [1]			<u>3,159,704</u>

[1] Denotes Major Program

See accompanying notes to schedule of expenditures of federal awards.

CITY OF PALMDALE, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/ProgramTitle/Cluster	Grant Identification Number	Federal CFDA Number	Federal Program Expenditures
<u>U.S. Department of Housing and Urban Development (Continued):</u>			
HOME Investment Partnerships Program:			
Administration	M-05/10-MC-06-0562	14.239	\$ 52,918
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	M-05/09-MC-06-0562	14.239	27,502
HOME Down Payment/Assistance Program	M-08/10-MC-06-0562	14.239	82,165
Total HOME Investment Partnerships Program			1,912,585
Homelessness Prevention and Rapid Re-Housing Program:			
ARRA - Administration	S09-MY-06-0581	14.257	4,020
ARRA - Data Collection	S09-MY-06-0581	14.257	923
ARRA - HPRP Services	S09-MY-06-0581	14.257	274,846
Total Homeless Prevention and Rapid Re-Housing Program[1]			279,789
Total Direct Assistance			5,352,078
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			5,700,000
Total U.S. Department of Housing and Urban Development			11,052,078
<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	41,580
Edward Byrne 2010 Memorial JAG Grant	2010-DJ-BX-1669	16.738	105,580
ARRA - Edward Byrne Memorial Justice Assistance	2009SBB92024	16.804	266
Total JAG Cluster			147,426
Total U.S. Department of Justice			147,426
<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	594,931
Workforce Investment Act - Dislocated Workers	DW091003	17.278	201,748
Total WIA Cluster			796,679
Workforce Investment Act - Business Services Network PHII	EA190780960A6	17.261	7,910
Workforce Investment Act - Business Services Network PHII	EA190780960A6	17.261	63,342
Total U.S. Department of Labor			71,252
Total U.S. Department of Labor			867,931

[1] Denotes Major Program

See accompanying notes to schedule of expenditures of federal awards.

CITY OF PALMDALE, CALIFORNIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/ProgramTitle/Cluster	Grant Identification Number	Federal CFDA Number	Federal Program Expenditures
<u>U.S. Department of Transportation</u>			
Passed-Through the State of California Department of Transportation:			
Highway Planning and Construction Cluster			
ARRA - Street Resurfacing	ESPL-5378(019)	20.205	\$ 1,367
Total Highway Planning and Construction			<u>1,367</u>
Passed-Through the State of California Office of Traffic Safety:			
Office of Traffic Safety Law Enforcement Grant	164AL-HSP-2012	20.608	<u>92,832</u>
Total U.S. Department of Transportation			<u>94,199</u>
Total Expenditures of Federal Awards			<u>\$ 12,698,298</u>

[1] Denotes Major Program

See accompanying notes to schedule of expenditures of federal awards.

CITY OF PALMDALE, CALIFORNIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2012

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	\$ 198,390
Community Development Block Grant	14.218	Greater Los Angeles Agency on Deafness	6,761
Community Development Block Grant	14.218	Fair Housing Council	27,444
HOME Investment Partnerships Program	14.239	Palmdale TOD Apartments LP	27,002
Homeless Prevention and Rapid Re-Housing Program	14.257	Antelope Valley Domestic Violence Council	275,472
Workforce Investment Act	17.258/17.278/17.261	Goodwill Southern California	867,616
Total Amount Provided to Subrecipients			<u><u>\$1,402,685</u></u>

CITY OF PALMDALE, CALIFORNIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2012

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, 2012	Prior Year Loans with Continuing Compliance Requirements	New Loans in Fiscal Year Ended June 30, 2012
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	750,000	-
14.239	HOME Investment Partnership Act	27,502	-	27,502

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 \$204,000. The City had the following loan balances outstanding at June 30, 2012.

CFDA No.	Federal Program	Outstanding Loans at June 30, 2012	Prior Year Loans	Repayments	New Loans in Fiscal Year Ended June 30, 2012
14.218	Community Development Block Grant - Section 108 Loan Guarantees	\$ 4,179,000	\$ 4,383,000 ⁽¹⁾	\$ 204,000	\$ -
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, 2012

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>Yes</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>
81.128	Energy Efficiency and Conservation Block Grant (includes ARRA)
14.218, 14.253	Community Development Block Grants - Entitlement Grants Cluster (includes ARRA)
14.257	Homelessness Prevention and Rapid Re-Housing Program (includes ARRA)

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 380,949</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, 2012

II. FINANCIAL STATEMENT FINDING

FINDING 2012-01

DEFERRED REVENUE AND PRIOR PERIOD ADJUSTMENT

Criteria or Specific Requirement:

In accordance with Government Accounting Standards Board Statement (GASB) No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, when the modified accrual basis of accounting is used “voluntary nonexchange revenues should be recognized when all applicable eligibility requirements are met and the resources are available.”

Condition Found:

Significant Deficiency – Based on our audit of the deposit liability account balances as of June 30, 2012, we noted that several account balances in various Funds included grant revenues and other local revenue sources that were determined to be available resources. These revenues had effectively been deferred by recording them as deposit liabilities. These should have been recognized as revenue at the time of receipt and then subsequently classified as restricted fund balance if balances remained unspent as of year-end.

Context:

The above condition was identified during our audit procedures over the City’s year-end liability account balances.

Effect:

Adjustments were proposed and posted to various City Funds, which also included a prior period adjustment.

Cause:

The City’s year end closing did not include the consideration of requirements of GASB Statement No. 33 as they related to the revenues which had been deferred in the deposit liability accounts.

Recommendation:

We recommend the City update the year-end closing process/procedures to include consideration of GASB Statement No. 33 as it relates to the applicable revenues as noted in the criteria noted above.

Views of Responsible Officials and Planned Corrective Action:

We agree and we will update the year end closing process and procedures to include consideration of the GASB Statement No. 33 as it relates to applicable revenues.

CITY OF PALMDALE, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2012

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

CITY OF PALMDALE, CALIFORNIA

FOR THE YEAR ENDED JUNE 30, 2012

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None reported.