

**CITY OF PALMDALE,
CALIFORNIA**

SINGLE AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2013**

CITY OF PALMDALE, CALIFORNIA

**SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2013**

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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, 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, each major fund, and the aggregate remaining fund information of the City of Palmdale, California (City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 18, 2013. Our report included an emphasis of matter paragraph regarding the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective July 1, 2012.

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 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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vawter, Tami, Day, Co., LLP

Rancho Cucamonga, California
December 18, 2013



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of Palmdale, California's (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, 2013. 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 requirements of laws, regulations, contracts, and grants 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 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 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 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, 2013.

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 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.

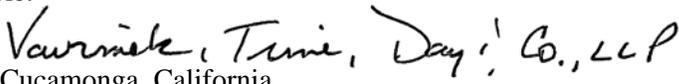
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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. *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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 18, 2013, which contained unmodified opinions on those financial statements. Our report included an emphasis of matter paragraph regarding the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective July 1, 2012. 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 the purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the 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 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.


Rancho Cucamonga, California
March 17, 2014

CITY OF PALMDALE, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2013

| 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 | | | |
| EECS and Climate Action Planning | DE-SC0001400 | 81.128 | \$ 9,315 |
| County AB811 Program Support | DE-SC0001400 | 81.128 | 3,554 |
| Safe Routes - Cimarron / Golden Schools | DE-SC0001400 | 81.128 | 9,995 |
| Traffic Signal Synchronization | DE-SC0001400 | 81.128 | 7,851 |
| Total ARRA - Energy Efficiency and Conservation Block Grant | | | <u>30,715</u> |
| Total U.S. Department of Energy | | | <u>30,715</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 | 1,996 |
| SAVES - Shelter | 26-0695-00 | 97.024 | 47 |
| Total Emergency Food and Shelter National Board Program Cluster | | | <u>2,043</u> |
| Total U.S. Department of Homeland Security | | | <u>2,043</u> |
| <u>U.S. Department of Housing and Urban Development:</u> | | | |
| Direct Assistance: | | | |
| Community Development Block Grant - Entitlement Grants Cluster: | | | |
| Administration | B12MC060581 | 14.218 | 73,760 |
| Fair Housing Council | B12MC060581 | 14.218 | 27,444 |
| Greater LA Council on Deafness | B12MC060581 | 14.218 | 6,857 |
| Section 108 Loan Principal Payment | B12MC060583 | 14.218 | 213,000 |
| Section 108 Loan Interest Payment | B12MC060584 | 14.218 | 200,210 |
| SAVES Administration | B12MC060585 | 14.218 | 188,299 |
| Boulders at Lake Electrical | B11/12MC060590 | 14.218 | 782,325 |
| Neighborhood Stabilization Program (NSP 1) | | | |
| Neighborhood Stabilization Prog - Administration | B08MN060515 | 14.218 | 136,470 |
| Neighborhood Stabilization Prog-HB Education | B08MN060515 | 14.218 | 2,400 |
| Neighborhood Stabilization Prog - Capital | B08MN060515 | 14.218 | 1,383,031 |
| Total Community Development Block Grant - Entitlement Grants Cluster | | | <u>3,013,796</u> |
| HOME Investment Partnerships Program [1]: | | | |
| HOME Administration | MC-05/11-MC-06-0562 | 14.239 | 72,392 |
| Courson - AMCAL 78 Unit | MC-05/08-MC-06-0562 | 14.239 | 1,000,000 |
| Transit Village Infrastructure | MC-05/09-MC-06-0562 | 14.239 | 27,502 |
| Transit Village Infrastructure | MC-05/09-MC-06-0563 | 14.239 | 689 |
| Sr Housing SCHDC - PSHP 80 Unit | MC-05/08-MC-06-0562 | 14.239 | 750,000 |
| HOME Down Payment/Assistance Prog | M-08/10-MC-06-0562 | 14.239 | 82,165 |
| Passed-Through the California Department of Housing and Community Development: | | | |
| CSP-Courson (HCD HOME)-Loan Receivable Balance | 04-HOME-0662 | 14.239 | 2,850,000 |
| Total HOME Investment Partnerships Program | | | <u>4,782,748</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>7,796,544</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, 2013

| Federal Grantor/Pass-Through Grantor/ProgramTitle/Cluster | Grant Identification Number | Federal CFDA Number | Federal Program Expenditures |
|--|-----------------------------|---------------------|------------------------------|
| <u>U.S. Department of Justice:</u> | | | |
| Passed through the City of Los Angeles: | | | |
| JAG Program Cluster: | | | |
| Edward Byrne 2011 Memorial JAG Grant | 2011-H8517-CA-DJ | 16.738 | \$ 82,780 |
| Edward Byrne 2012 Memorial JAG Grant | 2012-DJ-BX-1669 | 16.738 | 64,585 |
| COPS Technology Program for EOC Technology | 2009CKWX0413 | 16.804 | 10,204 |
| Total U.S. Department of Justice | | | 157,569 |
| <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 | 517,667 |
| Workforce Investment Act - Dislocated Workers | DW091003 | 17.278 | 149,405 |
| Workforce Investment Act - System Involved Youth | IY091003 | 17.259 | 7,594 |
| Total WIA Cluster | | | 674,666 |
| Workforce Investment Act - Business Services Network PHII | EA190780960A6 | 17.261 | 56,105 |
| Total U.S. Department of Labor | | | 730,771 |
| <u>U.S. Department of Transportation</u> | | | |
| Passed-Through the State of California Department of Transportation: | | | |
| Highway Planning and Construction Cluster: | | | |
| Sierra Hwy/Pearblossom Striping | ESPL-5378(020) | 20.205 | 353,167 |
| RVB Grade Separation | ESPL-5378(020) | 20.205 | 18,994 |
| Pave PTC Dirt Parking Lot | ESPL-5378(020) | 20.205 | 6,863 |
| Street Resurfacing 2011 | ESPL-5378(020) | 20.205 | 923,255 |
| Traffic Sig Ave R-8/40th St E | ESPL-5378(020) | 20.205 | 93,058 |
| Cycle 5 HSIP Program | ESPL-5378(019) | 20.205 | 21,437 |
| Total Highway Planning and Construction | | | 1,416,774 |
| Passed-Through the State of California Office of Traffic Safety: | | | |
| Office of Traffic Safety Law Enforcement Grant | 164AL-HSP-2012 | 20.608 | 65,770 |
| Total U.S. Department of Transportation | | | 1,482,544 |
| Total Expenditures of Federal Awards | | | \$ 10,200,186 |

[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, 2013

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 | \$ 188,299 |
| Community Development Block Grant | 14.218 | Greater Los Angeles Agency on Deafness | 6,857 |
| Community Development Block Grant | 14.218 | Fair Housing Council | 27,444 |
| HOME Investment Partnerships Program | 14.239 | Palmdale TOD Apartments LP | 689 |
| Workforce Investment Act | 17.258/17.278/17.261 | Goodwill Southern California | 730,771 |
| Total Amount Provided to Subrecipients | | | \$ 954,060 |

CITY OF PALMDALE, CALIFORNIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2013

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:

| <u>CFDA No.</u> | <u>Federal Program</u> | <u>Outstanding Loans at June 30, 2013</u> | <u>Prior Year Loans with Continuing Compliance Requirements</u> | <u>New Loans in Fiscal Year Ended June 30, 2013</u> |
|-----------------|---------------------------------|---|---|---|
| 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 | 28,191 (a) | 27,502 | 689 |
| 14.239 | HOME Investment Partnership Act | 82,165 (a) | 82,165 | - |

(a) These amounts represent draws on loans for ongoing projects. Additional draws are anticipated in future periods.

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 \$213,000. The City had the following loan balances outstanding at June 30, 2013.

| <u>CFDA No.</u> | <u>Federal Program</u> | <u>Outstanding Loans at June 30, 2013</u> | <u>Prior Year Loans</u> | <u>Repayments</u> | <u>New Loans in Fiscal Year Ended June 30, 2013</u> |
|-----------------|---|---|-------------------------|-------------------|---|
| 14.218 | Community Development Block Grant - Section 108 Loan Guarantees | \$ 3,966,000 | \$ 4,179,000 (1) | \$ 213,000 | \$ - |
| 14.239 | HOME | 2,850,000 | 2,850,000 (1) | - | - |

(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, 2013

I. SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

| | |
|---|----------------------|
| Type of auditors' report issued: | <u>Unmodified</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>Unmodified</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>14.239</u> | <u>HOME Investment Partnership Program</u> |

| | |
|--|------------------|
| Dollar threshold used to distinguish between Type A and Type B programs: | <u>\$306,006</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, 2013
II. FINANCIAL STATEMENT FINDING

None noted

CITY OF PALMDALE, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2013

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted

CITY OF PALMDALE, CALIFORNIA

FOR THE YEAR ENDED JUNE 30, 2013

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

| Finding No. | Condition | Status |
|--------------------|--|---------------|
| 2012-01 | Deferred Revenue and Prior Period Adjustment | Implemented |