

**CITY OF PALMDALE,
CALIFORNIA**

SINGLE AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2014**

CITY OF PALMDALE, CALIFORNIA
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2014

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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 City Council of
The City of Palmdale
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, 2014, 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 25, 2014. Our report included an emphasis of matter regarding the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective July 1, 2013, and the proper accounting treatment of escrow deposits.

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.

Varrinik, Trine, Day & Co. LLP

Rancho Cucamonga, California
November 25, 2014



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

The Honorable City Council of
The City of Palmdale
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, 2014. 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, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-001 that we consider to be a significant deficiency.

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated November 25, 2014, which contained unmodified opinions on those financial statements. Our report included an emphasis of matter regarding the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective July 1, 2013, and proper accounting treatment of escrow deposits. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 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.

Varrinck, Trine, Day & Co. LLP

Rancho Cucamonga, California
March 23, 2015

CITY OF PALMDALE, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/ProgramTitle/Cluster	Grant Identification Number	Federal CFDA Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development:</u>			
Direct Programs:			
Community Development Block Grant - Entitlement Grants Cluster:			
Administration	B13MC060581	14.218	\$ 93,014
Fair Housing Council	B13MC060581	14.218	27,444
Greater LA Council on Deafness	B13MC060581	14.218	7,615
Section 108 Loan Principal Payment	B13MC060581	14.248	222,000
Section 108 Loan Interest Payment	B13MC060581	14.248	191,282
SAVES Administration	B13MC060581	14.218	200,289
ADA Compliance	B08/13MC060581	14.218	42,408
Boulders at Lake Electrical	B11-13MC060581	14.218	5,650
Courson Connection Infrastructure	B12-13MC060581	14.218	1,390
Neighborhood Stabilization Program:			
Neighborhood Stabilization Prog - Administration	B08MN060515	14.218	55,182
Neighborhood Stabilization Prog - Capital	B08MN060515	14.218	212,822
Neighborhood Stabilization Prog - Forgive / Loss	N/A	14.218	230,282
Total Community Development Block Grant - Entitlement Grants Cluster			1,289,378
HOME Investment Partnerships Program [1]:			
HOME Administration	M-08/13-MC-06-0562	14.239	55,937
Courson - AMCAL 78 Unit	M-05/08-MC-06-0562	14.239	1,000,000
Transit Village Infrastructure	M-05/09-MC-06-0562/3	14.239	1,275,000
Sr Housing SCHDC - PSHP 80 Unit	M-05/08-MC-06-0562	14.239	750,000
Transitional Housing Paving the Way (CY)	M-10/11-MC-06-0562	14.239	157,616
MF Rental - New Construction (Duplex)	M12/13-MC-06-0562	14.239	16,448
MF Residential Acq & Rehab (10th Place)	M12/13-MC-06-0562	14.239	2,700
HOME Down Payment/Assistance Program	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			6,189,866
Total U.S. Department of Housing and Urban Development			7,479,244
<u>U.S. Department of Justice:</u>			
Passed-through the City of Los Angeles:			
Edward Byrne 2013 Memorial JAG Grant	2013-DJ-BX-0611	16.738	61,790
COPS Technology Program for EOC Technology	2009CKWX0413	16.710	61,957
Total U.S. Department of Justice			123,747
<u>U.S. Department of Labor:</u>			
Passed-through the County of Los Angeles:			
Workforce Investment Act Cluster (WIA) [1]:			
Workforce Investment Act - Adult	A091003	17.258	404,290
Workforce Investment Act - Adult Veterans Program	A091003	17.258	482,988
Workforce Investment Act - Dislocated Worker	DW091003	17.278	252,946
Workforce Investment Act - Dislocated Worker Veteran Program	DW091003	17.278	427,236
Total WIA Cluster			1,567,460
Total U.S. Department of Labor			1,567,460

[1] Denotes Major Program

N/A - No grant identification number was assigned by federal agency

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, 2014

Federal Grantor/Pass-Through Grantor/ProgramTitle/Cluster	Grant Identification Number	Federal CFDA Number	Federal Expenditures
<u>U.S. Department of Transportation</u>			
Passed-through the State of California Department of Transportation:			
Highway Planning and Construction Cluster [1]:			
HSIP Ave R 10th Street East	HSIP-5378(024)	20.205	404,434
RVB Grade Separation	ESPL-5378(020)	20.205	2,769
Traffic Sig Ave R-8/40th St E	ESPL-5378(020)	20.205	308,995
Cycle 5 HSIP Program Ave R & 55th Street	ESPL-5378(019)	20.205	43,711
SR 138 Intersection Improvement	DEM95L-5378(035)	20.205	33,647
Total Highway Planning and Construction Cluster			<u>793,556</u>
Passed-through Los Angeles County:			
Federal Transit Cluster:			
Federal Transit - Capital Investment Grants:			
Pave PTC Dirt Parking Lot	CA-04-0161	20.500	238,130
Total Federal Transit Cluster			<u>238,130</u>
Total U.S. Department of Transportation			<u>1,031,686</u>
<u>U.S. Department of Homeland Security:</u>			
Passed-through United Way-EFSP:			
Emergency Food and Shelter National Board Program:			
SAVES - Food	26-0695-00	97.024	18,240
SAVES - Shelter	26-0695-00	97.024	7,035
Total Emergency Food and Shelter National Board Program			<u>25,275</u>
Total U.S. Department of Homeland Security			<u>25,275</u>
Total Expenditures of Federal Awards			<u>\$ 10,227,412</u>

[1] Denotes Major Program
N/A - No grant identification number was assigned by federal agency

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, 2014

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award 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	\$ 200,289
Community Development Block Grant	14.218	Greater Los Angeles Agency on Deafness	7,615
Community Development Block Grant	14.218	Fair Housing Council	27,444
HOME Investment Partnerships Program	14.239	Palmdale TOD Apartments LP	1,246,809
HOME Investment Partnerships Program	14.239	Paving the Way Foundation	157,616
HOME Investment Partnerships Program	14.239	HOME Advancing Communities Together DBA Antelope Valley Youthbuild	16,448
Workforce Investment Act	17.258	Goodwill Southern California	823,074
Workforce Investment Act	17.278	Goodwill Southern California	615,082
Total Amount Provided to Subrecipients			\$ 3,094,377

CITY OF PALMDALE, CALIFORNIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2014

NOTE #3 – OUTSTANDING LOANS OF FEDERAL FUNDS

The following schedule presents 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, 2014	Prior Year Loans with Continuing Compliance Requirements	New Loans in Fiscal Year Ended June 30, 2014
14.239	HOME Investment Partnerships Program	\$ 2,850,000	\$ 2,850,000	\$ -
14.239	HOME Investment Partnerships Program	1,000,000	1,000,000	-
14.239	HOME Investment Partnerships Program	750,000	750,000	-
14.239	HOME Investment Partnerships Program	1,275,000	28,191	1,246,809
14.239	HOME Investment Partnerships Program	82,165	82,165	-

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 amount of \$222,000. The City had the following loan balances due to the U.S. Department of Housing and Urban Development and the State of California outstanding at June 30, 2014.

CFDA No.	Federal Program	Outstanding Loans at June 30, 2014	Prior Year Loans	Repayments	New Loans in Fiscal Year Ended June 30, 2014
14.248	Community Development Block Grant - Section 108 Loan Guarantees	\$ 3,744,000	\$ 3,966,000 (1)	\$ 222,000	\$ -
14.239	HOME Investment Partnerships Program	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, 2014

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 federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiencies identified?	<u>Yes</u>
Type of auditors' report issued on compliance for major federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	
Identification of major federal programs:	<u>Yes</u>

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
<u>14.239</u>	<u>HOME Investment Partnerships Program</u>
<u>17.258 / 17.278</u>	<u>Workforce Investment Act Cluster</u>
<u>20.205</u>	<u>Highway Planning and Construction Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 306,822</u>
Auditee qualified as low-risk auditee?	<u>No</u>

CITY OF PALMDALE, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014
II. FINANCIAL STATEMENT FINDINGS

None noted.

CITY OF PALMDALE, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2014

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2014-001

Program: Highway Planning & Construction

CFDA No.: 20.205

Federal Grantor: U.S. Department of Transportation

Passed-through: California Department of Transportation

Award No.: Various

Award Year: Various

Compliance Requirement: Procurement and Suspension and Debarment

Criteria:

The *March 2014 OMB Circular A-133 Compliance Supplement* states that when a Non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)*, collecting a certification from the entity or adding a clause or condition to the covered transaction with that entity.

Condition:

Significant Deficiency, Instance of Non-Compliance – As a result of testwork, we noted 3 out of 3 contracts selected did not have evidence of verification of suspension or debarment.

Questioned Costs:

We identified no questioned costs in our tests of compliance with this requirement.

Context:

The condition noted above was identified during our testing of the procurement and suspension and debarment requirements of the program.

Effect:

As a result of the condition noted, there is an increased risk of non-compliance with procurement, suspension and debarment requirements.

Cause:

The City did not follow written procedures requiring verification of the suspended and debarred status of vendors by checking the EPLS, collecting a certification from the vendor or adding a clause or condition to the contract with the entity.

CITY OF PALMDALE, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2014

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Recommendation:

We recommend the City implement policies and procedures to ensure that procurements and subawards of federally funded projects are verified against the EPLS for suspension or debarment, a certification is obtained, or adding a clause to contracts relating to federal award contracts.

Views of Responsible Officials and Planned Corrective Actions:

Management agrees with the finding and recognizes that, although the policies and procedures are already in place that requires all federally funded projects are verified against the EPLS for suspension or debarment, we did not maintain evidence of this verification. Management will ensure that going forward all procurements and subawards of federally funded projects will be verified against the EPLS for suspension or debarment and documentation of verification will be obtained.

CITY OF PALMDALE, CALIFORNIA
FOR THE YEAR ENDED JUNE 30, 2014
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None noted.