

City of Santa Clarita, California

Single Audit Report
Year Ended June 30, 2013

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City of Santa Clarita, California

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013**

Federal Agency/Grant Name	Catalog of Federal Domestic Assistance Number	Pass-Through/ Identification Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development:</u>			
Direct Program:			
Community Development Block Grant	14.218	B-12-MC-06-0576	\$ 963,458
ARRA - Community Development Block Grant	14.218	B-09-MY-06-0576	56,074
Passed through the State of California:			
HOME Investment Partnerships Program	14.239	11-HOME-7669	201,300
Total U.S. Department of Housing and Urban Development			1,220,832
<u>U.S. Department of Justice:</u>			
Direct Program:			
Edward Byrne Memorial Justice Assistance Grant	16.738	2010-DJ-BX-0729	24,841
	16.738	2011-DJ-BX-2744	16,163
	16.738	2012-DJ-BX-0827	123
Passed through the County of Los Angeles:			
Edward Byrne Memorial Justice Assistance Grant	16.738	MOU 10-00026	5,355
Passed through the County of Los Angeles:			
Equitable Sharing Program	16.922	CAEQ01940	4,163
Total U.S. Department of Justice			50,645
<u>U.S. Department of Labor:</u>			
Passed through Antelope Valley Workforce Development Consortium:			
Workforce Investment Act - Adult Program	17.258	ADW091001	233,004
Workforce Investment Act - Dislocated Workers	17.278	ADW091001	249,950
Total Workforce Investment Act Cluster:			482,954
Total U.S. Department of Labor			482,954
<u>U.S. Department of Transportation:</u>			
Passed through the State of California, Transportation Department:			
Highway Planning and Construction	20.205	BHLO-5450(066)	129,120
	20.205	BHLS-5405(065)	17,416
	20.205	BHLS-5450(073)	163,587
	20.205	BHLS-5450(080)	3,009
	20.205	HSIPL-5450(063)	289,450
	20.205	HSIPL-5450(071)	112,733
	20.205	HSIPL-5450(070)	43,177
	20.205	SRTSL-5450(075)	14,781
	20.205	STPL-5450(074)	539,498
	20.205	TC SPL-5450(072)	122,353

(Continued)

City of Santa Clarita, California

**Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2013**

Federal Agency/Grant Name	Catalog of Federal Domestic Assistance Number	Pass-Through/ Identification Number	Federal Expenditures
<u>U.S. Department of Transportation (Continued):</u>			
Direct Program:			
Federal Transit Formula Grant*	20.507	CA-90-Y276-01	\$ 61,969
	20.507	CA-90-Y719-00	3,788,590
	20.507	CA-95-X137-00	693,139
ARRA - Federal Transit Formula Grant*	20.507	CA-96-X071-01	1,973,237
ARRA - Transit Investments in Greenhouse Gas and Energy Reduction Program	20.523	CA-77-0004-00	19,799
Passed through UC Berkeley Traffic Safety Center:			
State and Community Highway Safety	20.600	SC12388	13,400
	20.600	SC13388	92,636
Passed through the State of California, Office of Traffic Safety:			
State and Community Highway Safety	20.600	20437	45,905
	20.600	PT1348	25,210
Total U.S. Department of Transportation			8,149,009
<u>U.S. Department of Energy:</u>			
Direct Program:			
ARRA - Energy Efficiency and Conservation Block Grant	81.128	SC0003068	21,413
Total U.S. Department of Energy			21,413
<u>U.S. Department of Homeland Security:</u>			
Direct Program:			
Pre-Disaster Mitigation	97.047	PDM 11-PJ21 2011-0002	61,550
	97.047	LPDM-PJ-09-CA-2010-002	23,121
Total U.S. Department of Homeland Security			84,671
Total Expenditures of Federal Awards			\$ 10,009,524

* Major Program

See Notes to Schedule of Expenditures of Federal Awards.

City of Santa Clarita, California

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all federal award programs of the City of Santa Clarita (the City) for the year ended June 30, 2013. The Schedule includes federal awards received directly from federal agencies. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to, and does not, present the financial position, changes in net position or cash flows of the City. The City's reporting entity is defined in Note 1 to the City's basic financial statements.

Note 2. Summary of Significant Accounting Policies

Funds received under the various grant programs have been recorded within the special revenue and enterprise funds of the City. The City utilizes the modified accrual basis of accounting for the special revenue funds, and the accrual basis of accounting is used for the enterprise funds. Expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Subrecipients

The amounts provided to subrecipients during the year ended June 30, 2013 by program are as follows:

CFDA	Program Name	Grant Identifying Number	Amount Provided to Subrecipients
14.218	Community Development Block Grant	B-12-MC-06-0576	\$ 349,461

Note 4. Department of Homeland Security Grant

The City has received approval to repurpose funding for the Pre-Disaster Mitigation (CFDA 97.047) program from the Department of Homeland Security. This program is awarded to support mitigation planning and projects primarily addressing natural hazards and promotes implementation of activities designed to reduce injuries, loss of life, and damage and destruction to property. The City has received express notification that expenditures incurred prior to the grant award would be eligible for reimbursement under this program. Currently, the grant application for the program has been approved and the City is awaiting the contract and grant agreement to begin submitting reimbursements. As of June 30, 2013, the City has incurred \$23,121 of eligible expenditures that will be reimbursable by the Department of Homeland Security.



**Independent Auditor's 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**

To the Honorable Mayor and Members of the City Council
of the City of Santa Clarita
Santa Clarita, CA

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, the business-type activities, each major fund and the aggregate remaining fund information of the City of Santa Clarita, California (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, and have issued our report thereon dated January 29, 2014, which included an emphasis of a matter paragraph modification for several restatements of net position and fund balance as of June 30, 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.

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; therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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. We consider the deficiencies described in the Schedule of Findings and Questioned Costs as items 2013-001, 2013-002, 2013-003 and 2013-004 to be material weaknesses.

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 Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 entity'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.



Irvine, CA
January 29, 2014



**Independent Auditor's Report on Compliance for
Each Major Program; Report on Internal Control Over
Compliance; and Report on the Schedule of Expenditures
of Federal Awards Required by OMB Circular A-133**

To the Honorable Mayor and Members of the City Council
of the City of Santa Clarita
Santa Clarita, CA

Report on Compliance for Each Major Federal Program

We have audited the City of Santa Clarita, 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 the City's major federal program for the year ended June 30, 2013. The City's major federal program is identified in the Summary of Auditor's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program 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 Office of Management and Budget (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 its major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on its Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program 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 its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its 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, the business-type 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 January 29, 2014, which contained unmodified opinions on those financial statements, including an emphasis of a matter paragraph modification for several restatements of net position and fund balance as of June 30, 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 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.

McGladrey LLP

Irvine, CA
January 29, 2014

City of Santa Clarita, California

**Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013**

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified not considered to be material weaknesses? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major award programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified not considered to be material weaknesses? Yes No

Type of auditor's report issued on compliance for major award programs: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? Yes No

Identification of major federal programs:

CFDA Number	Name of Federal Program
20.507	Federal Transit Formula Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$300,286

Auditee qualified as low-risk auditee? Yes No

**Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013**

II. Financial Statement Findings

Material Weaknesses

Finding Number: 2013-001 – Collectibility of Notes to RDA Successor Agency

Criteria: Procedures should be in place to periodically evaluate the collectibility of all receivables, including loans, to determine whether an allowance for doubtful accounts should be recorded.

Condition: At January 31, 2012, the redevelopment agencies for the State of California were dissolved. Prior to the dissolution, the City had given loans to the former redevelopment agency, and as of June 30, 2012, the unpaid principal and interest on the loans totaled \$13,318,896. The City did not evaluate the collectibility of these loans; therefore, an allowance for doubtful accounts was not established. During the audit as of June 30, 2013, McGladrey reviewed the circumstances surrounding the loans and determined that they had not been approved by the California Department of Finance as an enforceable obligation of the Successor Agency. This was brought to management's attention and it was unable to demonstrate that these loans had a high likelihood of being collectible. As a result, an allowance for doubtful accounts was established in the funds that held the receivables. This was required to be recorded as of June 30, 2012, which resulted in the fund balance of the General Fund to be restated as of June 30, 2012 by \$7,013,892, and the net position of the governmental activities to be restated as of June 30, 2012 by \$13,360,087.

Cause: The issue was systemic, as personnel within the Finance Department were not evaluating the collectibility of the loans receivable from the Successor Agency.

Effect: The fund balance and/or net position of certain opinion units have been restated as of June 30, 2012.

Recommendation: We recommend the City implement procedures to evaluate the collectibility of all receivables, including loans receivable from the Successor Agency, and determine whether an allowance for doubtful accounts should be recorded when the collectibility is uncertain.

Management's Response: Management agrees with the recommendation and has established a separate allowance for doubtful accounts for the notes to the RDA Successor Agency.

Finding Number: 2013-002 – Capital Asset Recording and Record Keeping

Criteria: Due to the significant balance of capital assets, the detailed internal capital asset records should be reconciled to the City's general ledger and Governmental Accounting Standards Board (GASB) 34 conversion schedule, and reviewed by the Finance Department on a periodic basis to ensure that all capital assets are recorded and reported in the correct fund.

City of Santa Clarita, California

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013

II. Financial Statement Findings (Continued)

Finding Number: 2013-002 – Capital Asset Recording and Record Keeping (Continued)

Condition: There were several matters noted relating to the City's capital assets, which, in conjunction, constitute a material weakness. They include:

- A restatement to the net position of the governmental activities and the RDA Successor Agency Trust as of June 30, 2012 totaling \$530,099 for assets not properly transferred to the RDA Successor Agency upon the dissolution of the former redevelopment agency.
- A restatement to the net position of the governmental activities and the RDA Successor Agency Trust and fund balances of non-major governmental funds as of June 30, 2012 totaling \$6,201,589 to remove an asset from capital assets and properly record it as land held for resale. This also required the asset to be written down to net realizable value, which totaled \$2,200,000 at June 30, 2012, resulting in a write-down of \$4,001,589 for the year ended June 30, 2012.
- A restatement to the net position of the internal service funds as of June 30, 2012 totaling \$7,680,005 to remove capital assets reported in the internal service funds, which should only have been reported in the governmental activities.
- A restatement to the net position of the governmental activities as of June 30, 2012 of \$5,640,350 to remove infrastructure that was not being depreciated and did not meet the criteria listed in the capitalization policy.
- Adjusting entries were recorded to correct assets that were recorded as deletions during the year ended June 30, 2013; however, the assets were not disposed of, they were taken out of service. The City still maintains custody of them.

Cause: These issues were systemic, as the City's reconciliation of capital assets was inconsistent with policies and procedures per the City's capital assets policy. In addition, the Finance Division did not accurately segregate assets owned by the former redevelopment agency when the dissolution occurred.

Effect: Adjusting entries were made that resulted in both material adjustments for the year ended June 30, 2013 and material restatements to the net position of certain opinion units as of June 30, 2012.

Recommendation: We recommend implementing procedures and internal controls to help to ensure the accuracy and completeness of capital assets reported.

Management's Response: Management agrees with the response and will implement procedures and internal controls to ensure the accuracy and completeness of capital assets reported.

City of Santa Clarita, California

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013

II. Financial Statement Findings (Continued)

In December 2007, an external firm specializing in infrastructure valuation services was retained by the City to prepare a comprehensive infrastructure valuation for the purpose of reporting the current net book value infrastructure assets in compliance with GASB Statement No. 34. In this valuation is included a net book value for street trees in excess of \$5.6 million as a component of an infrastructure network. The City accepted this recommendation and subsequently capitalized these street trees. During management's discussions with McGladrey, it was determined that capitalization of street trees is inconsistent with the City's capitalization policy and have agreed to remove street trees from its capital assets.

Finding Number: 2013-003 – Recognition of Revenue Previously Reported as Liabilities

Criteria: GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, gives guidance for revenue recognition for derived tax revenues, government-mandated nonexchange transactions, imposed nonexchange revenues and voluntary nonexchange transactions.

Condition: As of June 30, 2012, the City had not properly recognized revenue for certain in-lieu fees and developer contributions that qualified as government-mandated and imposed nonexchange transactions in accordance with GASB Statement No. 33. The City recorded certain revenues as liabilities (deposits payable and unearned revenue) until certain program expenditure had been incurred, at which time the City would recognize revenues. As a result, the fund balance of the General Fund as of June 30, 2012 was restated by \$357,299, the fund balance of the aggregate non-major governmental funds as of June 30, 2012 was restated by \$1,066,398, and the net position of the governmental activities as of June 30, 2012 was restated by \$1,423,697.

Cause: These issues were systemic, as the City had not properly complied with the provisions of GASB Statement No. 33.

Effect: The fund balance and/or net position of certain opinion units have been restated as of June 30, 2012.

Recommendation: We recommend the City continue to evaluate amounts received to help ensure revenues are recorded in accordance with the provisions of GASB Statement No. 33.

Management's Response: Management agrees with the recommendation and will evaluate transactions to determine whether it presents an obligation of the City, or if revenue should be recognized in the period received in accordance with the provisions of GASB Statement No. 33.

Finding Number: 2013-004 – Defined Availability Period

Criteria: National Council on Governmental Accounting (NCGA) Statement 1, *Governmental Accounting and Financial Reporting Principles*, requires governmental agencies to adopt a defined availability period, which is used to determine when revenues should be recognized under the modified accrual basis of accounting in governmental funds.

City of Santa Clarita, California

**Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013**

II. Financial Statement Findings (Continued)

Finding Number: 2013-004 – Defined Availability Period (Continued)

Condition: As of June 30, 2012, the City had not adopted an availability period for the revenue recognition in the governmental funds. This accounting treatment was not in accordance with the modified accrual basis of accounting as required by generally accepted accounting principles.

Starting with the fiscal year ended June 30, 2013, the City implemented an availability period of 60 days for property and sales tax revenues and 90 days for all other revenue sources. This correction was required to be implemented retroactively. As of June 30, 2012, one receivable was identified that was not received until more than 180 days after year-end. This item was recognized as revenue as of June 30, 2012; however, it should have been deferred and the revenue should have been recognized during the year ended June 30, 2013.

Cause: As of June 30, 2012, the City had not formally adopted an availability period for the revenue recognition in the governmental funds. The City utilized an availability period of 365 days for all revenues except property tax and sales tax revenue. This accounting treatment was not in accordance with the modified accrual basis of accounting as required by generally accepted accounting principles.

Effect: The fund balance and/or net position of certain opinion units have been restated as of June 30, 2012. Adjusting entries were also prepared to correct the overstatement of governmental revenues in the current year and record the deferred inflows of resource for revenues that were not received within the period of availability as of June 30, 2013.

Recommendation: We recommend the City adopt a formalized revenue recognition policy and continue to perform analysis to help determine if revenues are recorded in accordance with the adopted policy.

Management's Response: Management agrees with the recommendation and will establish a formalized revenue recognition policy, which will guide the availability for recognition of revenues for modified accrual basis of accounting in the governmental funds.

III. Federal Awards Findings and Questioned Costs

No matters were reported.

City of Santa Clarita, California

**Schedule of Prior Year Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013**

I. Financial Statement Findings

No matters were reported for the fiscal year ended June 30, 2012.

II. Federal Awards Findings and Questioned Costs

No matters were reported for the fiscal year ended June 30, 2012.