

City of Santa Clarita, California

Compliance Report
Year Ended June 30, 2014

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City of Santa Clarita, California

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014**

| Federal Agency/Grant Name | Federal CFDA Number | Pass-Through/ Identification Number | Federal Expenditures |
|--|---------------------------|---|-------------------------|
| <u>U.S. Department of Agriculture:</u> | | | |
| Direct Program: | | | |
| Wildlife Habitat Incentive Program | 10.914 | WHIP 7291045B208 | \$ 750 |
| Total U.S. Department of Agriculture | | | 750 |
| <u>U.S. Department of Housing and Urban Development:</u> | | | |
| Direct Program: | | | |
| Community Development Block Grant | 14.218 | B-13-MC-06-0576 | \$ 979,010 |
| Passed through the State of California: | | | |
| HOME Investment Partnerships Program | 14.239 | 11-HOME-7669 | 4,084 |
| Total U.S. Department of Housing and Urban Development | | | 983,094 |
| <u>U.S. Department of Justice:</u> | | | |
| Direct Program: | | | |
| Justice Assistance Grant Program - 2011 | 16.738 | 2011-DJ-BX-2744 | \$ 11,264 |
| Justice Assistance Grant Program - 2012 | 16.738 | 2012-DJ-BX-0827 | 8,222 |
| Total Justice Assistance Grant Program | | | 19,486 |
| Passed through the County of Los Angeles: | | | |
| Equitable Sharing Program | 16.922 | CAEQ01940 | 125 |
| Total U.S. Department of Justice | | | 19,611 |
| <u>U.S. Department of Labor:</u> | | | |
| Passed through Antelope Valley Workforce Development Consortium: | | | |
| Workforce Investment Act - Adult Program* | 17.258 | ADW091001 | 306,566 |
| Workforce Investment Act - Dislocated Workers* | 17.278 | ADW091001 | 144,981 |
| Total Workforce Investment Act Cluster | | | 451,547 |
| Total U.S. Department of Labor | | | 451,547 |
| <u>U.S. Department of Transportation:</u> | | | |
| Passed through the State of California, Transportation Department: | | | |
| Highway Planning and Construction* | 20.205 | BHLO-5450(066) | 145,353 |
| Highway Planning and Construction* | 20.205 | BHLS-5450(073) | (11,131) |
| Highway Planning and Construction* | 20.205 | BHLS-5450(080) | 41,256 |
| Highway Planning and Construction* | 20.205 | BHLS-5450(082) | 17,264 |
| Highway Planning and Construction* | 20.205 | CML-5450(083) | 329 |
| Highway Planning and Construction* | 20.205 | HSIPL-5450(079) | 83,798 |
| Highway Planning and Construction* | 20.205 | HSIPL-5450(081) | 37,693 |
| Highway Planning and Construction* | 20.205 | RPSTPLE-5450(059) | 1,080,751 |
| Highway Planning and Construction* | 20.205 | SRTSL-5450(075) | 279,479 |
| Highway Planning and Construction* | 20.205 | STPL-5450(068) | 662,287 |
| Highway Planning and Construction* | 20.205 | STPL-5450(074) | 60,502 |
| Highway Planning and Construction* | 20.205 | STPL-5450(078) | 18,271 |
| Highway Planning and Construction* | 20.205 | TCSPL-5450(072) | 8,087 |
| Total Highway Planning and Construction Program | | | 2,423,939 |

(Continued)

City of Santa Clarita, California

**Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2014**

| Federal Agency/Grant Name | Federal CFDA Number | Pass-Through/ Identification Number | Federal Expenditures |
|--|---------------------------|---|-------------------------|
| <u>U.S. Department of Transportation (Continued):</u> | | | |
| Direct Program: | | | |
| Federal Transit Formula Grant* | 20.500 | CA-04-0246-00 | \$ 246,737 |
| Federal Transit Formula Grant* | 20.507 | CA-90-Y276-01 | 2,632,356 |
| Federal Transit Formula Grant* | 20.507 | CA-90-Y719-00 | 4,044,578 |
| Federal Transit Formula Grant* | 20.507 | CA-90-Y851-01 | 805,000 |
| Federal Transit Formula Grant* | 20.507 | CA-95-X137-00 | 2,373,954 |
| ARRA - Federal Transit Formula Grant* | 20.507 | CA-96-X071-01 | 269,448 |
| Total Federal Transit Cluster | | | 10,372,073 |
| Passed through the State of California, Office of Traffic Safety: | | | |
| State and Community Highway Safety | 20.600 | SC13388 | 36,817 |
| State and Community Highway Safety | 20.600 | PT1348 | 13,940 |
| Total State and Community Highway Safety Program | | | 50,757 |
| Total U.S. Department of Transportation | | | 12,846,769 |
| <u>U.S. Department of Homeland Security:</u> | | | |
| Direct Program: | | | |
| Pre-Disaster Mitigation* | 97.047 | PDM 11-PJ21 2011-0002 | 599,612 |
| Pre-Disaster Mitigation* | 97.047 | LPDM-PJ-09-CA-2010-002 | (22,500) |
| Total Pre-Disaster Mitigation Program | | | 577,112 |
| Total U.S. Department of Homeland Security | | | 577,112 |
| Total Expenditures of Federal Awards | | | \$ 14,878,883 |

* 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, 2014. The Schedule includes federal awards received directly from federal agencies, as well as federal awards passed through other governmental 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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Note 3. Subrecipients

Of the federal expenditures presented in the Schedule, the City provided federal awards to subrecipients as follows:

| CFDA | Program Name | Grant Identifying Number | Amount Provided to Subrecipients |
|--------|-----------------------------------|--------------------------|----------------------------------|
| 14.218 | Community Development Block Grant | B-13-MC-06-0576 | \$ 302,089 |



**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***

Independent Auditor's Report

To the Honorable Mayor and Members of the City Council
of the City of Santa Clarita, California
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, 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 December 22, 2014.

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 deficiency described in the Schedule of Findings and Questioned Costs as item 2014-001 to be a material weakness.

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

The City's response to the 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 the financial statements and, accordingly, we express no opinion on it.

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

The image shows a handwritten signature in black ink that reads "McGladrey LLP". The signature is written in a cursive, flowing style.

Irvine, CA
December 22, 2014



**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**

Independent Auditor's Report

To the Honorable Mayor and Members of the City Council
of the City of Santa Clarita, California
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 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 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 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 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 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 types of 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.

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 the 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 22, 2014, which contained unmodified opinions on those financial statements. 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
December 22, 2014

City of Santa Clarita, California

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2014

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 None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Type of auditor's report issued on compliance for major federal 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 or Cluster |
|----------------|------------------------------------|
| 17.258/ 17.278 | Workforce Investment Act Cluster |
| 20.205 | Highway Planning and Construction |
| 20.500/ 20.507 | Federal Transit Formula Cluster |
| 97.047 | Pre-Disaster Mitigation |

Dollar threshold used to distinguish between Type A and Type B programs: \$446,367

- Auditee qualified as low-risk auditee? Yes No

City of Santa Clarita, California

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2014

II. Financial Statement Findings

Material Weakness

Finding Number: 2014-001 – Capital Asset Adjustments

Criteria: Procedures should be in place to detect or prevent material misstatements of capital assets, including, but not limited to, communication with other City departments for effective sharing of information and independent review of capital asset detailed listings.

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

- A restatement to the net position of the governmental activities as of June 30, 2013 totaling \$8,176,907 for the overstatement of capital assets duplicated in between fiscal years 2006 and 2007.
- A restatement to the net position of the governmental activities as of June 30, 2013 totaling \$7,461,940 for the net understatement of capital assets as the result of storm drain infrastructure contributed to the County of Los Angeles but not disposed at the time of contribution, and to record storm drain infrastructure that was not identified during the implementation of Governmental Accounting Standards Board Statement No. 34.
- A restatement to the net position of the governmental activities as of June 30, 2013 totaling \$48,469,559 for the understatement of capital assets that were annexed by the City for capital assets previously reported by the County of Los Angeles between fiscal years 1991 and 2013, but not recorded at the date of the exchange.

Cause: These issues were systematic, as the decentralization of the City's departments did not allow for effective communication between management to identify accounting events and transactions that impacted the reporting of capital assets. In addition, the internal controls implemented by management failed to detect errors in the financial reporting of capital assets.

Recommendation: We recommend implementing internal control policies and procedures that will provide reasonable assurance that all capital asset transactions, however acquired or retired, are properly reported in the financial statements.

Management's Response: As a result of the due diligence of City staff in reviewing its fixed asset policy, each of the following items was discovered and action was taken to make the corrections. The City brought each item to the attention of its auditors, McGladrey LLP. City staff has implemented internal controls to ensure capital assets are recorded accurately.

- Finance staff began using the fixed asset module in the City's financial system during fiscal year 2013-2014. During the update process, duplicate entries were discovered for donated infrastructure. The City's Public Works department provides Finance with copies of bond exoneration letters that are issued to the developers. The entries occurred when partial exoneration letters were recorded and then duplicated when a final exoneration letter was issued in a subsequent year. Finance staff will confirm with Public Works staff that exoneration letters are complete and will only capitalize those assets.

City of Santa Clarita, California

Schedule of Findings and Questioned Costs For the Fiscal Year Ended June 30, 2014

- Finance staff has had extensive discussions with City engineers regarding the process of storm drain acceptance from developers. As stated above, Finance staff will continue to receive copies of the bond exoneration letters that relate to storm drains, but will also receive a copy of the letter of acceptance from the County Flood Control District. Public works will not release a developer's storm drain bond until the County has accepted the storm drain. In the case of a bond exoneration letter for a storm drain that is not accompanied by the County's acceptance letter, Finance staff will communicate directly with Public Works to inquire if the storm drain will be transferred to the County. In the event the storm drain is not up to the County's standards for transfer, then the storm drain will be capitalized in accordance with the City's capital asset policy.
- The City discovered that capital assets had been acquired with annexations from Los Angeles County in fiscal years 2012 and 2013. Various divisions in the City such as Public Works and Parks Planning did inventory assets that were received in the annexations. Annexed streets were added to the City's pavement management inventory. The divisions, however, did not receive any financial information regarding the assets from the County.

In order to ensure capital assets are recorded for future annexations, the City's Planning division will provide Finance with copies of all certificates of completion. Finance staff will also review Council agenda reports for any future annexations and communicate directly with the Planning division staff. Finance staff will also request an inventory of annexed assets from the City divisions that will be maintaining those assets. Future annexation procedures will incorporate a request to the County to provide cost and depreciation information for capital assets to ensure an accurate inventory is recorded by the City.

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, 2014

I. Financial Statement Findings

Material Weaknesses

| Number | Comment | Status | Corrective Action or Other Explanation |
|---------------|---|---------------|---|
| 2013-001 | There was a proposed audit adjustment identified during our audit relating to an allowance for the loans receivable from the Successor Agency. | Corrected | |
| 2013-002 | There were proposed audit adjustments identified during our audit related to capital assets. These adjustments included restatements of net position of governmental and fiduciary activities for the removal of capital assets inconsistent with the City's capitalization policy or not properly transferred upon the dissolution of the former redevelopment agency. | Corrected | |
| 2013-003 | There was a proposed audit adjustment identified during our audit relating to the recognition of revenue in accordance with GASB Statement No. 33, <i>Accounting and Financial Reporting for Nonexchange Transactions</i> , for certain in-lieu fees and developer contributions. | Corrected | |
| 2013-004 | There was a proposed audit adjustment identified during our audit relating to the recognition of revenues received with an availability period for governmental funds. In addition, the City had not adopted an availability period for revenue recognition in governmental funds prior to June 30, 2013. | Corrected | |

II. Federal Awards Findings and Questioned Costs

No matters were reported for the fiscal year ended June 30, 2013.