



ADMINISTRATIVE SERVICES DEPARTMENT

MEMORANDUM

DATE: March 18, 2014

TO: The Honorable City Council

FROM: Donald E. Penman, Interim City Manager ^{DP}
By: Tracey L. Hause, Administrative Services Director

SUBJECT: SINGLE AUDIT REPORT

RECOMMENDATION:

It is recommended that the City Council receive and file the Single Audit Report (Attachment "A") for the year ended June 30, 2013.

BACKGROUND:

1. On July 15, 2011, after the completion of the Request for Proposal (RFP) process for audit services, including related Single Audit activities, the City Manager/Interim Administrative Services Director Pulido and the City's Accountant conducted an interview meeting with the representatives from Vasquez & Company, LLP. It was determined after that meeting Vasquez & Company could help the City undertake a comprehensive overview of the City's finances and management practices.
2. On August 2, 2011, the City Council approved a Professional Services Agreement with Vasquez & Company, LLP for auditing services for three years with two one-year options.
3. On January 8, 2013, Vasquez & Company completed their field work and has prepared the Single Audit Report for June 30, 2013.
4. On January 21, 2014, the City Council received and filed the Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2013.

ANALYSIS:

As a recipient of Federal grant funds in excess of \$500,000, the City is required to be in compliance with the financial reporting requirements of the Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. The Single Audit Act of 1984 (amended in 1996) pronounced the reporting process for

compliance, and is commonly known as the "Single Audit". A Single Audit is intended to provide a cost-effective audit of non-Federal entities in that one audit is conducted for all Federal grant funds in lieu of individual audits of each. All Single Audits are due to the Federal reporting agencies nine months after the close of the Fiscal Year (FY), (i.e., March 31, 2014).

The City Council is requested to receive and file the Single Audit Report so that staff can transmit the Single Audit Report to the Federal reporting agencies by March 31, 2014.

CONCLUSION:

Filing of the Single Audit Report by March 31 will satisfy the financial reporting requirements of the Federal reporting agencies.

FISCAL IMPACT:

This action of receiving and filing the Single Audit does not have a fiscal impact on the FY 2013-14 City Budget.

ATTACHMENT:

- A. Single Audit for the Year Ended June 30, 2013.

Single Audit Report
City of Temple City, California
Year ended June 30, 2013
with Independent Auditor's Reports

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CLP, FIRM PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS

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**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***

**The Honorable Mayor and Members of City Council
City of Temple City**

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 Temple City, 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 8, 2014.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit 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. 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 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.

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 from 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item FS 13-01.

City of Temple City's Response to Findings

City of Temple City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Temple 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vargay + Company LLP

Los Angeles, California
January 8, 2014



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**Independent Auditor's Report on Compliance for Each Major Federal Program, on
Internal Control Over Compliance, and on the Schedule of Expenditures
of Federal Awards, in Accordance with OMB Circular A-133**

**The Honorable Mayor and Members of City Council
City of Temple City**

Report on Compliance for Each Major Federal Program

We have audited the City of Temple City'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, 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.

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 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 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 or significant deficiencies 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 8, 2014, which contained an unmodified opinion 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 basic 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.

Vergara + Company LLP

**Los Angeles, California
January 8, 2014**

City of Temple City
Schedule of Expenditures of Federal Awards
Year ended June 30, 2013

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Program Identification Number</u>	<u>Federal Award Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed-through County of Los Angeles:			
Housing Rehabilitation Loan Program	14.174	D96756-12	\$ 93,251
Community Development Block Grant Entitlement Grant	14.218	601524-12	384,000 *
Asbestos and Lead-Based Paint Testing and Abatement Program	14.900	600604-12	<u>32,688</u>
Total U.S. Department of Housing and Urban Development			<u>509,939</u>
<u>U.S. Department of Transportation</u>			
Passed-through State of California			
Department of Transportation			
Highway Planning and Construction	20.205	CML-5365(007)	<u>1,563,464</u> *
Total U.S. Department of Transportation			<u>1,563,464</u>
<u>U.S. Department of Energy</u>			
Direct Assistance			
ARRA - Energy Efficiency Conservation Block Grant (EECBG)	81.128	EE0002277	<u>104,234</u> *
Total U.S. Department of Energy			<u>104,234</u>
<u>U.S. Department of Education</u>			
Passed-through County of Los Angeles:			
Youth Scholarship Program	84.215	D97755-12	<u>31,070</u>
Total U.S. Department of Education			<u>31,070</u>
Total Expenditures			<u>\$ 2,208,707</u>

* Major Programs

See accompanying notes to Schedule of Expenditures of Federal Awards.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Scope of Presentation

The accompanying schedule of expenditures of federal awards presents only the expenditures incurred by the City of Temple City, California (City) that are reimbursable under programs of federal and selected state agencies providing financial awards. For purposes of this schedule, financial awards include federal awards received directly from a federal agency, federal funds received indirectly by the City from a nonfederal agency or other organization. Only the portion of program expenditures reimbursable with such federal and selected state funds is reported in the accompanying schedule. Program expenditures in excess of the maximum reimbursement authorized or the portion of the program expenditures that were funded with other state, local or other nonfederal funds are excluded from the accompanying schedule.

Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal programs.

Schedule of Expenditures of Federal Awards

The Schedule of Expenditures of Federal Awards presented herein is prepared only from the accounts of the grant programs and, therefore, does not present the financial position or results of operations of the City of Temple City, California. The City's reporting entity is defined in Note 1 to the City's financial statements.

Relationship to Financial Statements

In accordance with the Governmental Accounting Standards Board's Statement Nos. 61 and 39, activities relating to all federal financial assistance programs are blended in the City's financial statements as special revenue funds.

Relationship to Federal Financial Reports

Grant expenditure reports as of June 30, 2013, which have been submitted to grantor agencies, will, in some cases, differ from amounts disclosed herein. The reports for grantor agencies are typically prepared at a later date and often reflect refined estimates of the year-end accruals.

NOTE 2 MAJOR PROGRAMS

The following Catalog of Federal Domestic Assistance (CFDA) programs were tested as major programs:

Community Development Block Grant	
Entitlement Grant (CDBG)	CFDA #14.218
Highway Planning and Construction	CFDA #20.205
ARRA - Energy Efficiency Conservation	
Block Grant (EECBG)	CFDA #81.128

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditor’s report issued on the financial statements	Unmodified
Internal control over financial reporting	
Material weakness(es) identified	No
Significant deficiency(ies) identified that are not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted	No

Federal Awards

Internal control over its major programs	
Material weakness(es) identified	No
Significant deficiency(ies) identified that are not considered to be material weaknesses	None reported
Type of auditor’s report issued on compliance for its major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB A-133	None

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.218	Community Development Block Grant Entitlement Grant (CDBG)
20.205	Highway Planning and Construction
81.128	ARRA-Energy Efficiency Conservation Block Grant (EECBG)

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as a low-risk auditee	Yes

Section II – Financial Statement Findings

FS 13-01 Concentration of Credit Risk

Criteria

The investment policy of the City contains no limitation on the amounts that can be invested in any one issuer beyond that stipulated by the California Government Code. Under Section 53601(h) of the California Government Code, the City is allowed to invest in negotiable certificates of deposit up to 30% of the City's total investments.

Condition and Context

During our audit, we noted that the City had investments in negotiable certificates of deposit that were in excess of the 30% limit. The City's investments in negotiable certificates of deposit of \$11,096,069 amounted to 38.7% of the total City's investments of \$28,702,528.

Cause and Effect

The City mistakenly classified the negotiable certificates of deposit as time deposits which have no investment limit. Maintaining a large share of an investment portfolio in one type of investment exposes the City to risk of loss of its investments in the event that the financial institution is unable to fulfill the terms of the investment agreement.

Recommendation

We recommend that the City restructure its investment portfolio to be in compliance with its investment policy.

Views of Responsible Officials and Planned Corrective Action

The City has implemented the following to be in compliance with its investment policy by taking the following actions:

- Cease in making any new investments in negotiable certificates of deposit (NCD);
- When an NCD matures, the re-investment of the proceeds are either in another investment instrument or utilized for liquidity purpose; and,
- Sold current NCDs in the portfolio prior to maturity at par or at a small gain.

The City has made every effort to bring the investments in NCDs below the 30% threshold once becoming aware of the finding.

**City of Temple City
Schedule of Findings and Questioned Costs
Year ended June 30, 2013**

Section III – Federal Award Findings

There were no federal award findings noted during the fiscal year ended June 30, 2013.

**City of Temple City
Status of Prior Year Audit Findings
Year ended June 30, 2013**

Not applicable – total federal expenditures during the fiscal year ended June 30, 2012 did not exceed the \$500,000 threshold for Single Audit.

