



CITY OF DOWNEY

JUNE 30, 2018

SINGLE AUDIT REPORT

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on YOU



CITY OF DOWNEY, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2018

CITY OF DOWNEY

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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*

To the Honorable Mayor and Members of the City Council
City of Downey, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Downey, California, (the City) as of and for the year ended June 30, 2018, 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 26, 2018.

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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. As listed in the Schedule of Findings and Questioned Costs, we consider findings 2018-001 and 2018-002 to be material weaknesses.

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 accompanying Schedule of Findings and Questions Costs 2018-003 to be a significant deficiency.



To the Honorable Mayor and Members of the City Council
City of Downey, California

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2018-004 and 2018-005.

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's responses 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.

Brea, California
December 26, 2018



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

To the Honorable Mayor and Members of the City Council
City of Downey, California

Report on Compliance for Each Major Federal Program

We have audited the City of Downey, California (the City)'s compliance with the types of compliance requirements described in the *OMB 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, 2018. 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 federal statutes, regulations, and terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 qualified and unmodified opinions on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Basis for Qualified Opinion on the Community Development Block Grant

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding CFDA 14.218 Community Development Block Grant for Allowable Activities and Allowable Costs as described in finding 2018-006. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Qualified Opinion on the Community Development Block Grant

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 CFDA 14.218 Community Development Block Grant for the year ended June 30, 2018.





To the Honorable Mayor and Members of the City Council
City of Downey, California

Unmodified Opinion on Each of the Other Major Federal Programs

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 other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-006 through 2018-010. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings 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 the Uniform Guidance, 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.

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 have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2018-006 to be a material weakness.



To the Honorable Mayor and Members of the City Council
City of Downey, California

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Finding and Questioned Costs as items 2018-007 through 2018-010 to be significant deficiencies.

The City's response to the internal control over compliance findings 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 the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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 of Downey, California, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 26, 2018, 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 the purposes of additional analysis as required by the Uniform Guidance 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.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Brea, California

March 27, 2019 (except for the Schedule of Expenditures of Federal Awards which is as of December 26, 2018).

CITY OF DOWNEY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's DUNS</u>	<u>Expenditures</u>	<u>Amount Provided to Subrecipients</u>
<u>U.S. Department of Housing and Urban Development</u>				
Direct Programs:				
Community Development Block Grants/Entitlement Grants *	14.218	N/A	\$ 2,258,872	\$ 48,392
Home Investment Partnerships Program *	14.239	N/A	725,116	352,998
Total U.S. Department of Housing and Urban Development			2,983,988	401,390
<u>U.S. Department of Justice</u>				
Direct Programs:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	1,767	-
Passed Through:				
County of Los Angeles:				
Equitable Sharing Program	16.922	96-159-6314	145,608	-
Total U.S. Department of Justice			147,375	-
<u>U.S. Department of Transportation</u>				
Passed Through:				
State of California Department of Transportation (Caltrans):				
Highway Planning and Construction Program	20.205	11-099-9732	489,339	-
State of California Office of Traffic and Safety:				
State and Community Highway Safety	20.600	96-505-3908	228,959	-
Total U.S. Department of Transportation			718,298	-
<u>U.S. Department of Homeland Security</u>				
Passed Through:				
State of California Office of Emergency Services:				
Pre-Disaster Mitigation	97.047	94-743-6176	5,276	-
County of Los Angeles:				
Homeland Security Grant Program	97.067	05-223-8763	17,999	-
Total U.S. Department of Homeland Security			23,275	-
Total Federal Expenditures			3,872,936	\$ 401,390
<u>Federal Loan Balances with a Continuing Compliance Requirement</u>				
CDBG Loan (beginning balance)*	14.218		515,208	
HOME - Investment Partnership Program (beginning balance)	14.239		6,039,490	
Total Federal Loan Balances with a Continuing Compliance Requirement			6,554,698	
TOTAL EXPENDITURES OF FEDERAL AWARDS INCLUDING LOANS			\$ 10,427,634	

* Major Program

Note a: Refer to Note 1 to the schedule of expenditures of federal awards for a description of significant accounting policies used in preparing this schedule.

Note b: There was no federal awards expended in the form of noncash assistance and insurance in effect during the year.

Note c: Total amount provided to subrecipients during the year was \$401,390.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

a. Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the City of Downey, California, that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

b. 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 program. The City has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 2: Section 108 Loan Program

In 2011, the City entered into a Contract for Loan Guarantee Assistance under Section 108 with the U.S. Department of Housing and Urban Development. Principal is payable in annual installments of \$81,000 commencing in 2011 and ending in 2026. The balance outstanding as of June 30, 2018, is \$648,000.

Note 3: Loan Programs with Continuing Compliance Requirements

The City participates in certain federal award programs that sponsor revolving loan programs, which are administered by the City. These programs required servicing arrangements with the City. The funds are returned to the programs upon repayment of the principal and interest. Current year transactions relating to these programs are included in the Schedule of Expenditures of Federal Awards. In accordance with 2 CFR section 200.502(b), the balance of loan program outstanding June 30, 2018 are as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Outstanding Balance at June 30, 2018</u>
14.218	CDBG Loans	\$ 493,957
14.239	HOME Loans	5,738,828
	Total Loans Outstanding	<u>\$ 6,232,785</u>

CITY OF DOWNEY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Significant deficiencies identified? _yes _no
 - Material weaknesses identified? _yes _none reported
- Noncompliance material to financial statements noted? _yes _no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? _yes _no
- Material weaknesses identified? _yes _none reported

Type of auditors' report issued on compliance for major programs: Unmodified Opinion for all major programs except for the Community Development Block Grant (CFDA 14.218) - Qualified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? _yes _no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218 14.239	Community Development Block Grants/Entitlement Grants Home Investment Partnerships Program

Dollar threshold used to distinguish between type A and type B program \$750,000

Auditee qualified as low-risk auditee? _yes _no

CITY OF DOWNEY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2018-001: Accounts Payable Accruals

Material Weakness

Condition

During our audit testwork, we noted four invoices, relating to expenditures incurred prior to June 30, 2018 that were not accrued to the fiscal year. The result was that payables and expenditures were understated by \$492,000. When brought to the management's attention, an adjustment was made to correct these issues.

Cause

This was determined to be caused by a lack of oversight in review. The payables and expenditures were not reviewed for cut-off procedures.

Criteria

The City should be performing a review on a timely basis to ensure all payables and expenditures are captured during the fiscal year and maintain a proper cut-off date.

Effect of Condition

Outstanding expenditures that are not captured in the appropriate period may lead to misstated payables and expenditures on the financial statements.

Recommendation

We recommend that management carefully review subsequent invoices for accounts payable to ensure proper cut-off procedures are applied to the correct accounts and accounting periods.

Management's Response and Corrective Action

The City acknowledges LSL recommendations and have initiated year-end closing procedures to record transactions in the proper period.

Finding 2018-002: Capital Assets Reconciliation

Material Weakness

Condition

During our audit testwork, we noted that the City did not capitalize assets in the Water Fund. This resulted in the understated projects in progress by \$2,681,992 and infrastructure by \$1,209,252, causing assets to be understated. When brought to the management's attention, an adjustment was made to correct this issue.

Cause

During the Fiscal year, the City performed a thorough review of its asset balances and determined that there were multiple changes and restatements required to properly state the asset balances.

Criteria

Costs that are considered capitalizable should be capitalized in the proper accounting period, and capital assets should be reconciled in a timely manner.

Effect of Condition

Net capital assets could be misstated due to capitalizable costs not being capitalized and associated depreciated that should have been recorded.

CITY OF DOWNEY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Recommendation

We recommend the City perform a thorough review of its capital projects at year-end to ensure that the City's records are complete and correctly stated.

Management's Response and Corrective Action

The City acknowledges LSL recommendations and is currently in the process of revising the City's fixed asset policy to incorporate recent changes in fixed asset procedures.

Finding 2018-003: Purchasing and Bidding Policy

Significant Deficiency

Condition

The City does not have a formal adopted Purchasing or Bidding policy approved by Council.

Cause

LSL noted that the City has a draft purchasing policy, which has not yet been adopted by Council. The draft policy is being used by the finance staff.

Criteria

A formal adopted Purchasing or Bidding policy will facilitate the implementation of stronger internal controls and oversight over the procurement process.

Effect of Condition

The absence of an adopted Purchasing or Bidding policy could provide a lack of guidance for City employees to follow when performing procurement procedures.

Recommendation

We recommend that the City have the Draft policy reviewed and adopted by Council to ensure that all approved policies are being followed.

Management's Response and Corrective Action

The City acknowledges LSL's recommendation and will incorporate the recommendation in the next fiscal year.

Finding 2018-004: Housing and Community Development (HCD) Annual Report

Noncompliance

Condition

LSL identified noncompliance related to the Housing and Community Development (HCD) annual report not filed timely. The City of Downey did not submit the HCD report electronically by April 1, 2018 and therefore the report was not completed as of April 1, 2018.

Cause

The City did not complete the HCD report in a timely manner.

CITY OF DOWNEY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Criteria

Section 65400 of the Government Code states if the Housing Successor is a City or County it will provide by April 1 of each year an Annual Progress Report to the legislative body, the Office of Planning and Research, and the Department of Housing and Community Development (HCD). This must also be published on the City website. The annual report is to provide: 1) the status of the General plan and progress in its implementation, 2) the progress in meeting its share of regional housing needs determined pursuant to Section 65584 and local efforts to remove governmental constraints to the maintenance, improvement, and development of housing pursuant to paragraph (3) of subdivision (c) of Section 65583, and 3) the degree to which its approved general plan complies with the guidelines developed and adopted pursuant to Section 65040.2 and the date of the last revision to the general plan.

Effect of Condition

The failure to submit the HCD report by the deadline of April 1 will result in a noncompliance finding.

Recommendation

We recommend that the City follows the guidelines stated in Section 65400 of the Government Code.

Management's Response and Corrective Action

The City acknowledges LSL's recommendation and will incorporate the recommendation.

Finding 2018-005: Land Held for Resale Not Developed or Sold

Noncompliance

Condition

LSL identified noncompliance related to the Land Held for Resale acquired by the former redevelopment Housing Successor. The City of Downey has two properties that should have been developed or sold during the current fiscal year.

Cause

The City was not aware of the Government Code requirements and failed to develop or sell the acquired Land Held for Resale in a timely manner.

Criteria

Section 33334.16 of the Government Code states the Housing Successor must initiate activities to develop properties purchased with Low and Moderate Income Housing Asset Fund money within five years from the date the Department of Finance approved the property as a housing asset.

Effect of Condition

The failure to initiate activities to develop properties purchased with Low and Moderate Income Housing Fund money within 5 years from the date the Department of Finance approved the property as a housing asset will result in a noncompliance finding.

Recommendation

We recommend that the City follows the guidelines stated in Section 33334.16 of the Government Code.

Management's Response and Corrective Action

These properties are currently in escrow and the City anticipates to close on escrow during fiscal year 2018-19.

CITY OF DOWNEY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2018-006: Allowable Costs/Cost Principles

Noncompliance/Material Weakness

Federal Award Information

CFDA Number: 14.218

Program Title: Community Development Block Grant

Federal Award Number: B-12-MC-06-0516; B-15-MC-06-0516; B-16-MC-06-0516; B-17-MC-06-0516

Federal Award Year: 2012; 2015; 2016; 2017

Name of Federal Agency: U.S. Department Housing and Urban Development

Criteria or Specific Requirement

The *2017 Community Development Block Grant Special Conditions* require that if funding assistance is used for payment of indirect costs pursuant to 2 CFR 200, Subpart E - Cost Principles, the City must attach a schedule to the executed Grant Agreement that is returned to the U.S. Department of Housing and Urban Development (HUD). The schedule shall identify each department/agency that will carry out activities with the funding assistance, the indirect cost rate applicable to each department/agency (including if the de minimis rate is charged per 2 CFR §200.414), and the direct cost base to which the rate will be applied.

Condition

Instance of Non-Compliance - The Housing Department is required to document indirect cost allocation plans for HUD's review and approval. Costs noted through testwork that payroll costs lacked supporting documentation to determine the reasonableness of the expenditure as direct costs. It was then found that the mentioned costs were determined to be monthly indirect costs applied to this program. Additionally, percentages of salaries and benefits for administrative staff were charged to the grant each pay period, indirectly. The pay for 2 individuals was reimbursed both as a percentage of the employees' regular salary and as part of the indirect overhead allocation claimed. Although the indirect cost allocation schedule was documented and submitted to HUD for their review and approval for these costs, the costs were determined to be unallowable based on 2 CFR §200.403 (d), as they were assigned as direct and indirect costs.

Cause of the Condition

The City has not submitted a formal indirect cost allocation plan to the U.S. Department Housing and Urban Development.

Effect or Possible Effect

Failure to submit and document that indirect costs are reasonable administrative costs and/or carrying charges related to the planning and execution of community development activities can result in federal agency disallowing expenditures and noncompliance with the agreement. Not properly documenting all expenditures reimbursable by this grant can result in noncompliance with federal regulations regarding allowable costs/cost principles.

Questioned Costs

The indirect costs charged to the program for the year ended June 30, 2018 was \$537,060.

Context

As a result of our testwork, it was noted that although indirect costs are allowed under this program, the monthly indirect costs reimbursed by this program lacked sufficient documentation to support the nature and amount of indirect costs applied.

Repeat Finding

This is a repeat finding. Refer to Finding 2017-005 in the Schedule of Prior Year Findings and Questioned Costs.

CITY OF DOWNEY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Recommendation

We recommend that the Housing Department adhere to the 2017 Community Development Block Grant Special Conditions and submit an indirect cost allocation schedule upon each executed Grant Agreement. We also recommend that the Department review costs of salaries being charged to the grant to determine whether the costs are being charged indirectly to the grant.

Management Response and Corrective Action

The City had an indirect cost study completed in fiscal year 2017-2018, which was completed by a third-party company called Matrix. After managements detailed review of the “draft” cost allocation plan, it is managements opinion that the report did not accurately reflect the true cost of services by program resulting in a mis-allocation of indirect costs. The City is once again pursuing a cost allocation plan be completed by the end of fiscal year 2018-2019 for City Council consideration during fiscal year 2019-2020.

Finding 2018-007: Reporting

Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 14.218

Program Title: Community Development Block Grant

Federal Award Number: B-12-MC-06-0516; B-15-MC-06-0516; B-16-MC-06-0516; B-17-MC-06-0516

Federal Award Year: 2012; 2015; 2016; 2017

Name of Federal Agency: U.S. Department Housing and Urban Development

Criteria or Specific Requirement

Title 24 – Housing and Urban Development, Part 135 – Economic Opportunities for Low and Very Low-Income Persons, Subpart E – Reporting and Recordkeeping, Section 135.90 – Reporting (Title 24CFR Part 135.90).

Each recipient which receives directly from HUD financial assistance that is subject to the requirements of this part shall submit to the Assistant Secretary an annual report in such form and with such information as the Assistant Secretary may request, for the purpose of determining the effectiveness of section 3.

Condition

Instance of Non-Compliance - While the Section 3 report deadline for submission was extended to December 31, 2018, the City personnel did not submit the report as of the date of audit fieldwork and further extension had not been requested. The City has also not yet submitted the Section 3 report applicable for fiscal year 2016/2017.

Cause of the Condition

The Housing Department at the City has not contacted the U.S. Department Housing and Urban Development for access to submit the Section 3 reports in a timely manner.

Effect or Possible Effect

Failure to submit the report by the required deadline has resulted in noncompliance.

Questioned Costs

No questioned costs were identified (\$0).

Context

The Section 3 Summary Report is an annual report that is filed with the CAPERs report.

CITY OF DOWNEY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Repeat Finding

This is a repeat finding. Refer to Finding 2017-006 in the Schedule of Prior Year Findings and Questioned Costs.

Recommendation

We recommend that the City implement a system to ensure that all required reporting deadlines are tracked and required submissions are made timely.

Management Response and Corrective Action

The Housing Division acknowledges the finding the Section 3 reports have not been submitted to HUD utilizing the proper channels. In 2015, HUD changed all submittals from paper to electronic utilizing its SPEARS system. Staff has submitted its request to obtain a login for HUD's SPEARS system to submit all Section 3 Reports electronically. Once clearance and an account has been provided by HUD, staff will continue to submit all missing Section 3 reports.

Finding 2018-008: Allowable Costs/Cost Principles

Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 14.239

Program Title: Home Investment Partnerships Program

Federal Award Number: M-13-MC060541; M-14-MC060541; M-15-MC060541; M-16-MC060541

Federal Award Year: 2013; 2014; 2015; 2016

Name of Federal Agency: U.S. Department Housing and Urban Development

Criteria or Specific Requirement

The 2016 HOME Investment Partnerships Agreement requires that if funding assistance is used for payment of indirect costs pursuant to 2 CFR 200, Subpart E - Cost Principles, the City must attach a schedule to the executed Grant Agreement that is returned to the U.S. Department of Housing and Urban Development (HUD). The schedule shall identify each department/agency that will carry out activities with the funding assistance, the indirect cost rate applicable to each department/agency (including if the de minimis rate is charged per 2 CFR §200.414), and the direct cost base to which the rate will be applied.

Condition

Instance of Non-Compliance - The Housing Department is required to document indirect cost allocation plans for HUD's review and approval. Through testwork it was determined that an indirect overhead allocation was charged to the program. It was also noted that an indirect cost allocation schedule was not documented and submitted to HUD for their review and approval for these costs.

Cause of the Condition

The City has not submitted a formal indirect cost allocation plan to the U.S. Department Housing and Urban Development.

Effect or Possible Effect

Failure to submit and document that indirect costs are reasonable administrative costs and/or carrying charges related to the planning and execution of community development activities can result in federal agency disallowing expenditures and noncompliance with the agreement. Not properly documenting all expenditures reimbursable by this grant can result in noncompliance with federal regulations regarding allowable costs/cost principles.

Questioned Costs

The indirect costs charged to the program for the year ended June 30, 2018 was \$7,368.

CITY OF DOWNEY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Context

As a result of our testwork, it was noted that although indirect costs are allowed under this program, the monthly indirect costs reimbursed by this program lacked sufficient documentation to support the nature and amount of indirect costs applied.

Repeat Finding

This is a repeat finding. Refer to Finding 2017-007 in the Schedule of Prior Year Findings and Questioned Costs.

Recommendation

We recommend that the Housing Department adhere to the *2016 HOME Investment Partnerships Agreement* and submit an indirect cost allocation schedule upon each executed Grant Agreement.

Management Response and Corrective Action

The City had an indirect cost study completed in fiscal year 2017-2018, which was completed by a third-party company called Matrix. After managements detailed review of the “draft” cost allocation plan, it is managements opinion that the report did not accurately reflect the true cost of services by program resulting in a mis-allocation of indirect costs. The City is once again pursuing a cost allocation plan be completed by the end of fiscal year 2018-2019 for City Council consideration during fiscal year 2019-2020.

Finding 2018-009: Reporting

Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 14.239

Program Title: Home Investment Partnerships Program

Federal Award Number: M-13-MC060541; M-14-MC060541; M-15-MC060541; M-16-MC060541

Federal Award Year: 2013; 2014; 2015; 2016

Name of Federal Agency: U.S. Department Housing and Urban Development

Criteria or Specific Requirement

Title 24 – Housing and Urban Development, Part 135 – Economic Opportunities for Low and Very Low-Income Persons, Subpart E – Reporting and Recordkeeping, Section 135.90 – Reporting (Title 24CFR Part 135.90).

Each recipient which receives directly from HUD financial assistance that is subject to the requirements of this part shall submit to the Assistant Secretary an annual report in such form and with such information as the Assistant Secretary may request, for determining the effectiveness of section 3.

Condition

Instance of Non-Compliance - While the Section 3 report deadline for submission was extended to December 31, 2018, the City personnel did not submit the report as of the date of audit fieldwork and further extension had not been requested. The City has also not yet submitted the Section 3 report applicable for fiscal year 2016/2017.

Cause of the Condition

The Housing Department at the City has not contacted the U.S. Department Housing and Urban Development for access to submit the Section 3 reports in a timely manner.

Effect or Possible Effect

Failure to submit the report by the required deadline has resulted in noncompliance.

Questioned Costs

No questioned costs were identified (\$0).

CITY OF DOWNEY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Context

The Section 3 Summary Report is an annual report that is filed with the CAPERs report.

Repeat Finding

This is a repeat finding. Refer to Finding 2017-008 in the Schedule of Prior Year Findings and Questioned Costs.

Recommendation

We recommend that the City implement a system to ensure that all required reporting deadlines are tracked and required submissions are made timely.

Management Response and Corrective Action

The Housing Division acknowledges the finding the Section 3 reports have not been submitted to HUD utilizing the proper channels. In 2015, HUD changed all submittals from paper to electronic utilizing its SPEARS system. Staff has submitted its request to obtain a login for HUD's SPEARS system to submit all Section 3 Reports electronically. Once clearance and an account has been provided by HUD, staff will continue to submit all missing Section 3 reports.

Finding 2018-010: Reporting

Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 14.239

Program Title: Home Investment Partnerships Program

Federal Award Number: M-16-MC060541

Federal Award Year: 2016

Name of Federal Agency: U.S. Department Housing and Urban Development

Criteria or Specific Requirement

The grant award agreement stipulates that the grantee shall comply with the Federal Funding Accountability and Transparency Act (FFATA) in Appendix A to 2 CFR part 170. The City is required under FFATA to report subawards greater than or equal to \$25,000 using the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) by the end of the month following the month in which the subaward was made.

Condition

Instance of Non-Compliance - As part of our audit testing, we obtained and inspected the subrecipient agreements filed for the program year and determined that the City did not prepare FFATA reports in a timely manner for the fiscal year ended June 30, 2018. The subrecipient awards in excess of \$25,000 were made in March 2018, but the FFATA reports were not filed.

Cause of the Condition

In prior years, the City was not aware that the FFATA reporting requirements were applicable, resulting from inadequate internal controls relating to identification of reporting requirement for the grant program. In fiscal year 2017-2018, the City did not file the report by the required reporting deadline.

Effect or Possible Effect

The City did not comply with the reporting requirements of FFATA or the grant agreement.

Questioned Costs

No questioned costs were identified (\$0).

Context

The subrecipient agreements greater than \$25,000 were signed and implemented during the fiscal year 2017-2018, but the City did not file the necessary FFATA report.

CITY OF DOWNEY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2018.

Recommendation

We recommend that the City continue to implement procedures and controls to identify required reports and reporting deadlines and to verify that all reports required by the federal agencies are prepared, reviewed, approved, and filed with the agency in a timely manner.

Management's Response and Corrective Action

The Housing Division understands the finding to report all HOME subawards greater than \$25,000 using the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) per the Federal Funding Accountability and Transparency Act (FFATA) in Appendix A to 2 CFR part 170. Housing Division staff has posed the question to its HUD Representative as this type of reporting is not stipulated in the HOME regulations nor OMB Circulars provided by the U.S. Department of Housing and Urban Development. The City always strives to be transparent in all projects and activities performed utilizing Federal funding; as a result, it provides all information relating to subawards and the outcomes in its annual CAPER report. The Housing Division will await for further instruction from its HUD Representative as to whether the City needs to report all subawards greater than \$25,000 using the FSRS system and will proceed with its recommendation.



SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Reference 2017-001: Capital Assets Reconciliation, Record-keeping and Review

Material Weakness

Condition

Assets are primarily being tracked through use of large spreadsheets with insufficient detail of assets that are added or removed, making it difficult to determine which assets are in service and the valuation of the assets. This resulted in a loss of land being recorded due to the book value of the asset being unknown.

Cause

The City lacks appropriate record-keeping, with regards to some of its older assets, resulting in the client being unable to properly calculate and record depreciation charges and gain or losses on assets when sold.

Criteria

During our audit, we noted the City lacked procedures for reconciling detailed fixed asset records to the general ledger on a regular basis.

Effect of Condition

The lack of such procedures can lead to inaccurate reporting of fixed assets and related depreciation expense. There were instances where adjustments were required to record disposals that were not reported on the City's roll-forward.

Recommendation

It is our understanding that the City is prudently working with a third-party consultant on certain asset valuations. We recommend a continuation of this process for all City assets and this evaluation be reported evaluated for possible restatements of asset values no later than fiscal year 2017/2018.

We recommend the City reconcile general ledger fixed asset accounts to the detailed records on a monthly basis. The City should also perform a thorough review of its assets to ensure that the City's records are complete, that the valuation of assets can be easily determined, and that depreciation is being properly calculated.

Management's Response and Corrective Action

The City acknowledges LSL's recommendation and will incorporate the recommendation with year-end closing procedure.

Finding Reference 2017-002: Review for Costs Incurred but Not Yet Billed

Material Weakness

Condition

During our audit, we noted the City has insufficient procedures for reviewing costs incurred by the departments for which invoices have not yet been received from vendors or the individual departments.

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SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Cause

This was determined to be the caused by a lack of oversight in review. The payables and expenditures were not reviewed for cut-off-procedures.

Criteria

Individual departments responsible for reviewing service periods for ongoing vendor contracts should be made aware of the financial statement cut-off date by management.

Effect of Condition

The lack of such procedures leads to the City not accruing a large payment to a vendor that was related to the 2016-2017 fiscal year, understating current year expenses and accounts payable.

Recommendation

We recommend the City implement a policy, requiring the individual departments to review the service periods of invoices to ensure that all invoices have been received from the vendor and submitted to Finance in a timely manner for processing. We also recommend that Finance increase its cutoff period for reviewing AP invoices received to ensure all necessary invoices are properly accrued.

Management's Response and Corrective Action

The City acknowledges LSL's recommendation and will incorporate the recommendation with year-end closing procedure.

Finding Reference 2017-003: Review of Accounts Receivable for Deferral of Revenues

Material Weakness

Condition

During our audit, we noted the City lacked sufficient procedures for reviewing revenues for accrual or deferral.

Cause

The condition was caused by a lack of management oversight and review procedures for recognizing revenues within the City's authorized revenue recognition policy.

Criteria

Subsequent accounts receivable transactions should be thoroughly reviewed by management to properly classify if the funds should be recorded as revenues or deferred.

Effect of Condition

This resulted in a large account receivable being recorded as revenue during the year which was not received within the City's 90-day revenue recognition period, overstating revenues and understating liabilities at June 30, 2017.

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SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Recommendation

We recommend the City implement a policy, for reviewing accounts receivables in all funds on a regular basis to ensure that any revenues are properly deferred if necessary.

Management's Response and Corrective Action

The City acknowledges LSL's recommendation and will incorporate the recommendation with year-end closing procedure.

Finding Reference: 2017-004: Purchasing and Bidding Policy

Significant Deficiency

Condition

The City does not have a formal adopted Purchasing or Bidding policy approved by Council.

Cause

LSL noted that the City has a draft purchasing policy, which has not yet been adopted by Council. The draft policy is being used by the finance staff.

Criteria

A formal adopted Purchasing or Bidding policy will facilitate the implementation of stronger internal controls and oversight over the procurement process.

Effect of Condition

The absence of an adopted Purchasing or Bidding policy could provide a lack of guidance for City employees to follow when performing procurement procedures.

Recommendation

We recommend that the City have the Draft policy reviewed and adopted by Council to ensure that all approved policies are being followed.

Management's Response and Corrective Action

Currently, the City of Downey's purchasing policy is governed by the City's Purchasing Municipal Code and City's Administrative Regulation which are the formal documents for governance of purchasing and bidding procedures.

The Purchasing Policy & Procedures (which is in draft form) is being developed as the companion in implementing policy/procedures of the City's governing documents described above.



SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2017-005: Allowable Costs/Cost Principles Noncompliance/Material Weakness

Federal Award Information

CFDA Number: 14.218

Program Title: Community Development Block Grant

Federal Award Number: B-12-MC-06-0516; B-14-MC-06-0516; B-15-MC-06-0516; B-16-MC-06-0516

Federal Award Year: 2012; 2014; 2015; 2016

Name of Federal Agency: U.S. Department Housing and Urban Development

Criteria or Specific Requirement

The 2016 Community Development Block Grant Special Conditions require that if funding assistance is used for payment of indirect costs pursuant to 2 CFR 200, Subpart E - Cost Principles, the City must attach a schedule to the executed Grant Agreement that is returned to the U.S. Department of Housing and Urban Development (HUD). The schedule shall identify each department/agency that will carry out activities with the funding assistance, the indirect cost rate applicable to each department/agency (including if the de minimis rate is charged per 2 CFR §200.414), and the direct cost base to which the rate will be applied.

Condition

Instance of Non-Compliance - The Housing Department is required to document indirect cost allocation plans for HUD's review and approval. Costs noted through testwork that payroll costs lacked supporting documentation to determine the reasonableness of the expenditure as direct costs. It was then found that the mentioned costs were determined to be monthly indirect costs applied to this program. Additionally, percentages of salaries and benefits for administrative staff were charged to the grant each pay period, indirectly. The pay for 2 individuals was reimbursed both as a percentage of the employees' regular salary and as part of the indirect overhead allocation claimed. It was also noted that an indirect cost allocation schedule was not documented and submitted to HUD for their review and approval for these costs.

Cause of the Condition

The City has not submitted a formal indirect cost allocation plan to the U.S. Department Housing and Urban Development.

Effect or Possible Effect

Failure to submit and document that indirect costs are reasonable administrative costs and/or carrying charges related to the planning and execution of community development activities can result in federal agency disallowing expenditures and noncompliance with the agreement. Not properly documenting all expenditures reimbursable by this grant can result in noncompliance with federal regulations regarding allowable costs/cost principles.

Questioned Costs

The indirect costs charged to the program for the year ended June 30, 2017 was \$499,911.

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SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Context

As a result of our testwork, it was noted that although indirect costs are allowed under this program, the monthly indirect costs reimbursed by this program lacked sufficient documentation to support the nature and amount of indirect costs applied.

Repeat Finding

This is a repeat finding. Refer to Finding 2016-009 in the Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 2016.

Recommendation

We recommend that the Housing Department adhere to the 2016 Community Development Block Grant Special Conditions and submit an indirect cost allocation schedule upon each executed Grant Agreement. We also recommend that the Department review costs of salaries being charged to the grant to determine whether the costs are being charged indirectly to the grant.

Management Response and Corrective Action

The City does not agree with the Auditors question cost concerning the indirect cost of \$499,911. Of this amount, \$134,702 is the indirect cost and the difference of \$365,209 is a direct cost charged to the program.

Regarding the \$134,702 of indirect cost the City submitted to the Housing and Urban Development an indirect cost allocation schedule in the annual agreement for fiscal year 2017-2018, which was approved by Housing and Urban Development.

Status of Prior Period Finding

This is a repeat finding. Refer to Finding 2018-006 in the Schedule of Findings and Questioned Costs.

Finding 2017-006: Reporting

Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 14.218

Program Title: Community Development Block Grant

Federal Award Number: B-12-MC-06-0516; B-14-MC-06-0516; B-15-MC-06-0516; B-16-MC-06-0516

Federal Award Year: 2012; 2014; 2015; 2016

Name of Federal Agency: U.S. Department Housing and Urban Development

Criteria or Specific Requirement

Title 24 – Housing and Urban Development, Part 135 – Economic Opportunities for Low and Very Low-Income Persons, Subpart E – Reporting and Recordkeeping, Section 135.90 – Reporting (Title 24CFR Part 135.90). Each recipient which receives directly from HUD financial assistance that is subject to the requirements of this part shall submit to the Assistant Secretary an annual report in such form and with such information as the Assistant Secretary may request, for the purpose of determining the effectiveness of section 3.



SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Condition

Instance of Non-Compliance - While the Section 3 report deadline for submission was extended to December 31, 2017, the City personnel did not submit the report as of the date-of-audit fieldwork and further extension had not been requested.

Cause of the Condition

The Housing Department at the City has not contacted the U.S. Department Housing and Urban Development for access to submit the Section 3 reports in a timely manner.

Effect or Possible Effect

Failure to submit the report by the required deadline has resulted in noncompliance.

Questioned Costs

No questioned costs were identified (\$0).

Context

The Section 3 Summary Report is an annual report that is filed with the CAPERs report.

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2017.

Recommendation

We recommend that the City implement a system to ensure that all required reporting deadlines are tracked and required submissions are made timely.

Management Response and Corrective Action

Management will create a schedule with reporting deadlines. Management will review schedule on a regular basis to confirm staff is submitting report on a timely basis.

Status of Prior Period Finding

This is a repeat finding. Refer to Finding 2018-007 in the Schedule of Findings and Questioned Costs.

Finding 2017-007: Allowable Costs/Cost Principles

Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 14.239

Program Title: Home Investment Partnerships Program

Federal Award Number: M-13-MC060541; M-14-MC060541; M-15-MC060541; M-16-MC060541

Federal Award Year: 2013; 2014; 2015; 2016

Name of Federal Agency: U.S. Department Housing and Urban Development

Criteria or Specific Requirement

The 2016 HOME Investment Partnerships Agreement requires that if funding assistance is used for payment of indirect costs pursuant to 2 CFR 200, Subpart E - Cost Principles, the City must attach a

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SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

schedule to the executed Grant Agreement that is returned to the U.S. Department of Housing and Urban Development (HUD). The schedule shall identify each department/agency that will carry out activities with the funding assistance, the indirect cost rate applicable to each department/agency (including if the de minimis rate is charged per 2 CFR §200.414), and the direct cost base to which the rate will be applied.

Condition

Instance of Non-Compliance - The Housing Department is required to document indirect cost allocation plans for HUD's review and approval. Through testwork it was determined that an indirect overhead allocation was charged to the program. It was also noted that an indirect cost allocation schedule was not documented and submitted to HUD for their review and approval for these costs.

Cause of the Condition

The City has not submitted a formal indirect cost allocation plan to the U.S. Department Housing and Urban Development.

Effect or Possible Effect

Failure to submit and document that indirect costs are reasonable administrative costs and/or carrying charges related to the planning and execution of community development activities can result in federal agency disallowing expenditures and noncompliance with the agreement. Not properly documenting all expenditures reimbursable by this grant can result in noncompliance with federal regulations regarding allowable costs/cost principles.

Questioned Costs

The indirect costs charged to the program for the year ended June 30, 2017 was \$7,368.

Context

As a result of our testwork, it was noted that although indirect costs are allowed under this program, the monthly indirect costs reimbursed by this program lacked sufficient documentation to support the nature and amount of indirect costs applied.

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2017.

Recommendation

We recommend that the Housing Department adhere to the *2016 HOME Investment Partnerships Agreement* and submit an indirect cost allocation schedule upon each executed Grant Agreement.

Management Response and Corrective Action

The City had an indirect cost study in fiscal year 2017-2018, which was completed by a third-party company called Matrix. City Council will review the allocation report from Matrix in fiscal Year 2018-19 for adoption. The City will submit to Housing and Urban Development the indirect cost allocation once approved by Council which is anticipated to be in fiscal year 2018-2019.

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SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Status of Prior Period Finding

This is a repeat finding. Refer to Finding 2018-008 in the Schedule of Findings and Questioned Costs.

Finding 2017-008: Reporting

Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 14.239

Program Title: Home Investment Partnerships Program

Federal Award Number: M-13-MC060541; M-14-MC060541; M-15-MC060541; M-16-MC060541

Federal Award Year: 2013; 2014; 2015; 2016

Name of Federal Agency: U.S. Department Housing and Urban Development

Criteria or Specific Requirement

Title 24 – Housing and Urban Development, Part 135 – Economic Opportunities for Low and Very Low-Income Persons, Subpart E – Reporting and Recordkeeping, Section 135.90 – Reporting (Title 24CFR Part 135.90).

Each recipient which receives directly from HUD financial assistance that is subject to the requirements of this part shall submit to the Assistant Secretary an annual report in such form and with such information as the Assistant Secretary may request, for determining the effectiveness of section 3.

Condition

Instance of Non-Compliance - While the Section 3 report deadline for submission was extended to December 31, 2017, the City personnel did not submit the report as of the date of audit fieldwork and further extension had not been requested.

Cause of the Condition

The Housing Department at the City has not contacted the U.S. Department Housing and Urban Development for access to submit the Section 3 reports in a timely manner.

Effect or Possible Effect

Failure to submit the report by the required deadline has resulted in noncompliance.

Questioned Costs

No questioned costs were identified (\$0).

Context

The Section 3 Summary Report is an annual report that is filed with the CAPERs report.

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2017.

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SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Recommendation

We recommend that the City implement a system to ensure that all required reporting deadlines are tracked and required submissions are made timely.

Management Response and Corrective Action

Management will create a schedule with reporting deadlines. Management will review schedule on a regular basis to confirm staff is submitting report on a timely basis.

Status of Prior Period Finding

This is a repeat finding. Refer to Finding 2018-009 in the Schedule of Findings and Questioned Costs.

Finding 2017-009: Cash Management Significant Deficiency

Federal Award Information

CFDA Number: 16.922
Program Title: Equitable Sharing
Federal Award Number: N/A
Federal Award Year: 2017
Name of Federal Agency: U.S. Department of Justice

Criteria or Specific Requirement

Per the Guide to Equitable Sharing for State and Local Law Enforcement agencies:

The state or local participating law enforcement agency must not commingle department of Justice equitable sharing funds with funds from any other Source.

Condition

While the Equitable Sharing funds are maintained in their own account, equitable sharing from other funds (State funding) is tracked in the same fund, and expenditures are comingled within the fund.

Cause of the Condition

The City did not consistently track the expenditures related to federal Equitable sharing funds.

Effect or Possible Effect

Because the activity of different funding sources was maintained in the same fund, expenditures made using Department of Justice Equitable sharing funds could not be easily identified.

Questioned Costs

No questioned costs were identified (\$0).

Context

The expenditures made with Equitable sharing funds could not be easily determined.

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SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2017

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2017.

Recommendation

We recommend that Federal Equitable Sharing revenues and expenditures be isolated into a separate fund in the City's trial balance to improve tracking.

Management Response and Corrective Action

To efficiently track expenditures and revenues for the Federal Equitable Sharing Grant, the City will create a new fund effective fiscal year 2018-2019 (On July 1, 2018) to isolate federal expenditures from state and local funding sources.

Status of Prior Period Finding

This finding is considered to be resolved. The corrective action was taken as indicated in the 2016-2017

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