



CITY OF DOWNEY, CALIFORNIA

JUNE 30, 2020

SINGLE AUDIT REPORT

Focused
on YOU



CITY OF DOWNEY, CALIFORNIA

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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, 2020, 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 21, 2020.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as finding 2020-001, that we consider to be material weaknesses.



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 financial statements. 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*. These matters are described in the accompanying Schedule of Findings and Questioned Costs as 2020-002.

City's Response to Findings

The City's response to the findings identified in our audit 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.

A handwritten signature in black ink that reads "Lance, Solt & Lughard, LLP". The signature is written in a cursive, flowing style.

Brea, California
December 21, 2020.



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, 2020. 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 opinion 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/Entitlement Grants as described in finding numbers 2020-003 for Allowable Costs/Cost Principles, 2020-004 for Reporting, and 2020-005 for Loan Continuing Compliance Requirements. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.





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

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, 2020.

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, 2020.

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 2020-005 through 2020-007. 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 2020-003 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 2020-004 through 2020-007 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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 21, 2020, 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.

Lance, Soll & Lughard, LLP

Brea, California

March 11, 2021 (except for the Schedule of Expenditures of Federal Awards which is as of December 21, 2020).

CITY OF DOWNEY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's DUNS	Expenditures	Amount Provided to Subrecipients
<u>CDBG -Entitlement Grants Cluster *</u>				
U.S. Department of Housing and Urban Development				
Direct Programs:				
Community Development Block Grants/Entitlement Grants	14.218	N/A	\$ 1,121,089	\$ 46,554
Community Development Block Grants/Entitlement Grants - Loan Programs (Note 3)	14.218		468,540	-
Total U.S. Department of Housing and Urban Development			1,589,629	46,554
Total CDBG -Entitlement Grants Cluster			1,589,629	46,554
<u>Highway Planning and Construction Cluster *</u>				
U.S. Department of Transportation				
Passed Through:				
State of California Department of Transportation (Caltrans):				
Highway Planning and Construction Program	20.205	11-099-9732	848,186	-
Total U.S. Department of Transportation			848,186	-
Total Highway Planning and Construction Cluster			848,186	-
<u>Highway Safety Cluster</u>				
U.S. Department of Transportation				
Passed Through:				
State of California Office of Traffic and Safety:				
State and Community Highway Safety	20.600	96-505-3908	86,264	-
Total U.S. Department of Transportation			86,264	-
Total Highway Safety Cluster			86,264	-
<u>Other Programs</u>				
U.S. Department of Housing and Urban Development				
Direct Programs:				
Home Investment Partnerships Program *	14.239	N/A	527,154	47,616
Home Investment Partnerships Program - Loans program (Note 3)*	14.239		5,540,009	-
Total U.S. Department of Housing and Urban Development			6,067,163	47,616
U.S. Department of Justice				
Direct Programs:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	41,247	-
Equitable Sharing Program	16.922	N/A	733,542	-
Total U.S. Department of Justice			774,789	-
U.S. Department of Transportation				
Passed Through:				
State of California Office of Traffic and Safety:				
Minimum Penalties for Repeat Offenders for Driving while Intoxicated	20.608	96-505-3908	119,979	-
Total U.S. Department of Transportation			119,979	-
U.S. Department of Health and Human Services				
Direct Programs:				
CARES Provider Relief Fund	93.498	N/A	14,807	-
Total U.S. Department of Health and Human Services			14,807	-
U.S. Department of Homeland Security				
Passed Through:				
County of Los Angeles:				
Homeland Security Grant Program	97.067	05-223-8763	305,493	-
Total U.S. Department of Homeland Security			305,493	-
Total Other Programs			7,282,231	47,616
Total Federal Expenditures			\$ 9,806,310	\$ 94,170

CORONAVIRUS EMERGENCY ACTS FUNDING RECONCILIATION

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's DUNS	Expenditures	Amount Provided to Subrecipients
U.S. Department of Health and Human Services				
CARES Provider Relief Fund	93.498	N/A	\$ 14,807	\$ -
Total U.S. Department of Health and Human Services			14,807	-
Total Coronavirus Emergency Acts Funding			\$ 14,807	\$ -

* Major Program

¹ There was no federal awards expended in the form of noncash assistance and insurance in effect during the year.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020**

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

a. Scope of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the City of Downey, California (the "City") under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the 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). 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.

b. Basis of Accounting

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized, as applicable, under the cost principles contained in the Uniform Guidance and 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. 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, 2020, is \$486,000.

In 2019, the City entered into a Contract for Loan Guarantee Assistance under Section 108 with the U.S. Department of Housing and Urban Development. The Nissan Loan principal is payable with annual installments of \$114,000 commencing in 2019 and ending in 2026. The balance outstanding as of June 30, 2020, is \$798,000.

In 2019, the City entered into a Contract for Loan Guarantee Assistance under Section 108 with the U.S. Department of Housing and Urban Development. The Soccer Field Loan principal is payable with annual installments of \$158,000 commencing in 2020 and ending in 2038. The balance outstanding as of June 30, 2020 is \$3,000,000.

CITY OF DOWNEY

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2020

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, 2020, are as follows:

CFDA Number	Program Name	Outstanding Balance at June 30, 2020
14.218	CDBG Loans	\$ 456,355
14.239	HOME Loans	5,369,934
	Total Loans Outstanding	<u>\$ 5,826,289</u>

CITY OF DOWNEY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Material weaknesses identified? yes no
- Significant deficiencies identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? yes no
- Significant deficiencies 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)? yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant / Entitlement Grant Cluster
14.239	HOME Investment Partnership Program
20.205	Highway Planning and Construction Cluster

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

Auditee qualified as low-risk auditee? yes no

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2020-001: Accounts Payable Accrual

Material Weakness

Condition

The City did not accrue a check relating to services performed in fiscal year 2019-2020 as of June 30, 2020.

Criteria

Generally Accepted Accounting Principles

Cause of Condition

Error due to oversight during the AP review process at year end.

Effect or Potential Effect of Condition

The misstatement resulted in understated expenditures and accounts payable at year end.

Recommendation

LSL recommends that the City perform a thorough review over the AP accrual, beyond the City's AP cutoff period to ensure any late invoices are properly accrued, if necessary.

Management's Response and Corrective Action

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

Finding 2020-002: Uniform Guidance Purchasing Policy

Material Noncompliance

Condition

The City did not have a formal adopted purchasing or bidding policy that adheres to the Uniform Guidance, a requirement as of July 1, 2018, under the audit period.

Criteria

A formal adopted Purchasing or Bidding policy, in accordance with the Uniform Guidance, will facilitate the implementation of stronger internal controls and oversight over the procurement process.

Cause of Condition

LSL noted that the City had not implemented the Uniform Guidance requirements into the City's purchasing policy as of June 30, 2020.

Effect or Potential Effect of Condition

The absence of a Purchasing or Bidding policy, which complies with Uniform Guidance, could provide a lack of guidance for City employees to follow when performing procurement procedures for federal awards.

Recommendation

We recommend the City update the procurement policy, to comply with Uniform Guidance and have the policy adopted by Council, to ensure that all approved policies are being followed.

Management's Response and Corrective Action

The City formally adopted a policy that adheres the Uniform Guidance according to the Office of Management and Budget's Guidance for Grants and Agreements on November 24, 2020.

CITY OF DOWNEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2020-003: Allowable Costs/Cost Principles

Material Weakness

Federal Award Information

CFDA Number: 14.218

Program Title: Community Development Block Grant

Federal Award Number: B-17-MC-06-0516; B-18-MC-06-0516; B-19-MC-06-0516

Federal Award Year: 2017; 2018; 2019

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

Criteria or Specific Requirement

The *2018 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. We noted through our test work that payroll costs lacked supporting documentation to determine the reasonableness of the expenditure as direct costs. Additionally, percentages of salaries and benefits for four (4) administrative staff were charged to the grant each pay period, indirectly. Although the indirect cost allocation schedule was documented and submitted to HUD for their review and approval, the costs were determined to be unallowable based on 2 CFR §200.403 (d), as 4 individuals were not on the indirect cost allocation schedule.

Cause of the Condition

The City has not retained adequate documentation of timecard which support the time charged to the program under payroll costs.

Effect or Possible Effect

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, 2020 was \$386,725. We computed allowable payroll costs from a sample of 11 individuals by 4 pay periods and obtained the total salaries and benefits per employee with disallowed costs.

Context

As a result of our testwork, it was noted that this program lacked sufficient documentation to support the nature and amount of payroll costs applied.

Repeat Finding

This is a repeat finding. Refer to Finding 2019-004 in the Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 2019.

Recommendation

We recommend that the Housing Department adhere to the *2018 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.

CITY OF DOWNEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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

Management Response and Corrective Action

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

Finding 2020-004: Reporting

Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 14.218

Program Title: Community Development Block Grant

Federal Award Number: B-17-MC-06-0516; B-18-MC-06-0516, B-19-MC-06-0516

Federal Award Year: 2017; 2018, 2019

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

Criteria or Specific Requirement

Office of Management and Budget (OMB) Part 4 Department of Housing and Urban Development 14.218 Community Development Block Grants/Entitlement Grants III. Compliance Requirements L. Reporting 1. Financial Reporting d. *Integrated Disbursement and Information System (IDIS) (OMB No. 2506-0077)* – Grantees may include reports generated by IDIS as part of their annual performance and evaluation report that must be submitted for the CDBG Entitlement program 90 days after the end of a grantee's program year. Auditors are only expected to test information extracted from IDIS in the following system-generated reports:

- (1) C04PR03 – Activity Summary Report
- (2) C04PR26 – CDBG Financial Summary

Condition

Instance of Non-Compliance – While the CDBG Financial Summary Report (C04PR26) was submitted timely within the Consolidated Annual Performance and Evaluation Report, the report included materially inaccurate information on Line 01 Unexpended CDBG Funds at the end of the previous program year of \$0 which should have been \$417,288.45. This affects the other line items 08 Total Available (Sum, Lines 01-07) and 16 Unexpended Balance (Line 08 – Line 15).

Cause of the Condition

The Housing Department at the City has not contacted the U.S. Department of Housing and Urban Development for correction of Line 01 as it carryforwards from the prior year report in a timely manner.

Effect or Possible Effect

Failure to submit accurate reporting information has resulted in noncompliance.

Questioned Costs

No questioned costs were identified (\$0).

Context

The CDBG Financial Summary Report (C04PR26) is an annual report that is filed with the CAPERs report. The Line 01 of concern is a system generated amount from the prior year report which did not generate the correct material unexpended amount of \$417,288.45.

Repeat Finding

This is new finding for the fiscal year ended in June 30, 2020.

Recommendation

We recommend that the City implement a system to ensure that all required reporting information is reviewed for accuracy and includes all pertinent information.

CITY OF DOWNEY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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

Management Response and Corrective Action

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

Finding 2020-005: Loan Continuing Compliance Requirements

Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 14.218

Program Title: Community Development Block Grant

Federal Award Number: B-17-MC-06-0516; B-18-MC-06-0516; B-19-MC-06-0516

Federal Award Year: 2017; 2018; 2019

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

CFDA Number: 14.239

Program Title: Home Investment Partnerships

Federal Award Number: M-15-MC-06-0541; M-16-MC-06-0541; M-17-MC-06-0541; M-18-MC-06-0541

Federal Award Year: 2015; 2016; 2017; 2018

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

Criteria or Specific Requirement

According to *Title 24 CFR, Subpart F, Project Requirements, Section 92.254 Qualification as affordable housing: Homeownership, (a)(5) Resale and recapture*, all participating jurisdictions must establish the resale or recapture requirements that comply with the standards of this section. Resale requirements must ensure, if the housing does not continue to be the principal residence of the family for the duration of the period of affordability that the housing is made available for subsequent purchase only to a buyer whose family qualifies as a low-income family and will use the property as the family's principal residence. Except as provided in paragraph (a)(5)(i)(B) of this section, deed restrictions, covenants running with the land, or other similar mechanisms must be used as the mechanism to impose the resale requirements.

Condition

While the City did not have any new loans within the fiscal year, the City has not performed continuing compliance checks on the loans reported on the SEFA.

Cause of the Condition

The Housing Department at the City has not documented the insurance documents it received for the loan continuing compliance requirements or perform follow up checks to ensure principal residence.

Effect or Possible Effect

Failure to timely document continuing loan compliance checks has resulted in noncompliance.

Questioned Costs

No questioned costs were identified (\$0).

Context

The City of Downey does receive insurance notification of expiring insurance then the Housing Department would check for loan compliance.

Repeat Finding

This is a repeat finding. Refer to Finding 2019-006 in the Schedule of Findings and Questioned Costs for fiscal year ended June 30, 2019.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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

Recommendation

We recommend that the City implement controls to document the insurance that is received by the City and the name listed is the homeowner of the loan.

Management Response and Corrective Action

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

Finding 2020-006: Subrecipient Monitoring

Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 14.239

Program Title: Home Investment Partnerships

Federal Award Number: M-16-MC-06-0541, M-17-MC-060541

Federal Award Year: 2016, 2017

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

Criteria or Specific Requirement

According to *Title 2 CFR, Subpart D, Subrecipient Monitoring and Management, Section 200.331, Requirements for pass-through entities*, all pass-through entities must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:

- Reviewing financial and performance reports required by the pass-through entity
- Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means
- Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the pass-through entity as required by management's decision (per Section 200.521)

Condition

As part of our audit testing, we sampled participants through the subrecipient for eligibility requirements and special test requirements that received HOME program funds from the City. We noted that while the subrecipient does perform the necessary eligibility requirements and special tests, the City was not maintaining responsibility over monitoring the subrecipient for these requirements.

Cause of the Condition

The Housing Division has not performed inspections of participants from the subrecipient to ensure the subrecipient is conforming to federal grant requirements.

Effect or Possible Effect

The subrecipient is performing the eligibility and special test requirements over their participants without oversight from the City. There is an increase risk of ineligible participants receiving funding.

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, 2020**

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

Context

The Housing Division is overseeing the allowability of costs from the subrecipient through the required bi-weekly reports. The reports also list the performance of the program funds.

Repeat Finding

This is a repeat finding. Refer to Finding 2019-007 in the Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 2019.

Recommendation

We recommend that the City conduct an annual onsite inspection of documentation to ensure compliance with income verification and eligibility of participants, and to monitor subrecipient.

Management Response and Corrective Action

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

Finding 2020-007 Reporting

Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 14.239

Program Title: Home Investment Partnerships

Federal Award Number: M-16-MC-06-0541, M-17-MC-060541

Federal Award Year: 2016, 2017

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 the 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, 2020. The subrecipient awards in excess of \$25,000 were made in July 2019, 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 2019-2020, 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 the FFATA or the grant agreement.

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, 2020**

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

Context

The subrecipient agreements greater than \$25,000 were signed and implemented during the fiscal year 2019-2020, but the City did not file the necessary FFATA report.

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2020.

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 Response and Corrective Action

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



SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2019-001: Capital Assets Reconciliation Material Weakness

Condition

During our audit test work, we noted that the City did not properly reclassify assets from construction in progress and depreciable capital assets in both governmental activities and business-type activities. This resulted in improper classifications of \$8,597,426 and \$197,611, respectively. As a result, audit adjusting entries were proposed.

Cause

During the fiscal year, the City performed a thorough review of its capital assets balances and determined that multiple charges and restatements were required to properly state capital assets 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

Capital assets could be misstated due to capitalizable costs not being capitalized and associated depreciated not recorded.

Recommendation

We recommend the City perform a thorough review of its capital assets at year-end to ensure that all capital assets and construction in progress are properly recorded.

Management's Response and Corrective Action

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

Status of Prior Period Finding

This finding is considered resolved.

Finding 2019-002: Purchasing and Bidding Policy

Significant deficiency

Condition

The City does not have a formal adopted purchasing or bidding policy that adheres to the Uniform Guidance, a requirements as of July 1, 2018.

Cause

LSL noted that the City has not yet implemented Uniform Guidance requirements into the City's purchasing policy.

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SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

Criteria

A formal adopted Purchasing or Bidding policy, in accordance with uniform guidance, will facilitate the implementation of stronger internal controls and oversight over the procurement process.

Effect of Condition

The absence of a Purchasing or Bidding policy, which complies with Uniform Guidance, could provide a lack of guidance for City employees to follow when performing procurement procedures for federal awards.

Recommendation

We recommend the City update the procurement policy, to comply with Uniform Guidance and have the policy adopted by Council, to ensure that all approved policies are being followed.

Management's Response and Corrective Action

At present the City follows the Purchasing Ordinance under the authority of Article 2 Chapter 9 of the Downey Municipal Code which also addresses the purchasing procedures. Downey City charter section 1211 also addresses contract bidding procedures.

The City will formally adopt a policy that adheres the Uniform Guidance according to the Office of Management and Budget's Guidance for Grants and Agreements required in June 2020.

Status of Prior Period Finding

This finding is not resolved. See Finding 2020-002 in the Schedule of Findings and Questioned Costs.

Finding 2019-003: Housing and Community Development (HCD) Annual Report

Noncompliance

Condition

The City of Downey did not file its Housing and Community Development's Annual Progress Report electronically by the April 1, 2019 due date.

Cause

The City of Downey submitted its Annual Progress Report electronically on May 30, 2019, therefore the report was not filed late.

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,



SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

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 Annual Progress Report by the deadline of April 1 is a noncompliance with Section 65400 of the Government Code.

Recommendation

We recommend that the City take note of the due date for the report, which is due on April 1 of every year, to ensure that the report is completed and filed timely.

Management's Response and Corrective Action

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

Status of Prior Period Finding

This finding is considered resolved.



SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2019-004: Allowable Costs/Cost Principles Material Weakness

Federal Award Information

CFDA Number: 14.218

Program Title: Community Development Block Grant

Federal Award Number: B-16-MC-06-0516; B-17-MC-06-0516; B-18-MC-06-0516

Federal Award Year: 2016; 2017; 2018

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

Criteria or Specific Requirement

The 2018 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. We noted through our test work that payroll costs lacked supporting documentation to determine the reasonableness of the expenditure as direct costs. Additionally, percentages of salaries and benefits for five (5) administrative staff were charged to the grant each pay period, indirectly. Although the indirect cost allocation schedule was documented and submitted to HUD for their review and approval, the costs were determined to be unallowable based on 2 CFR §200.403 (d), as 4 individuals were not on the indirect cost allocation schedule.

Cause of the Condition

The City has not retained adequate documentation of timecard which support the time charged to the program under payroll costs.

Effect or Possible Effect

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, 2019 was \$304,066. We computed allowable payroll costs from a sample of 8 individuals by 6 pay periods and obtained the total salaries and benefits per employee with disallowed costs.

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SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

Context

As a result of our testwork, it was noted that this program lacked sufficient documentation to support the nature and amount of payroll costs applied.

Repeat Finding

This is a repeat finding. Refer to Finding 2018-005 in the Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 2018.

Recommendation

We recommend that the Housing Department adhere to the *2018 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.

Management Response and Corrective Action

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

Status of Prior Period Finding

This finding is not resolved. See Finding 2020-003 in the Schedule of Findings and Questioned Costs.

Finding 2019-005: Reporting

Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 14.218

Program Title: Community Development Block Grant

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

Federal Award Year: 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 24 CFR 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, 2019

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, 2019, 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 and 2017/2018.

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 repeat finding. Refer to Finding 2018-007 in the Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 2018.

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

Status of Prior Period Finding

This finding is considered resolved.

Finding 2019-006: Loan Continuing Compliance Requirements

Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 14.239

Program Title: Home Investment Partnerships

Federal Award Number: M-15-MC-06-0541; M-16-MC-06-0541; M-17-MC-06-0541; M-18-MC-06-0541

Federal Award Year: 2015; 2016; 2017; 2018

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

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SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

Criteria or Specific Requirement

According to *Title 24 CFR, Subpart F, Project Requirements, Section 92.254 Qualification as affordable housing: Homeownership, (a)(5) Resale and recapture*, all participating jurisdictions must establish the resale or recapture requirements that comply with the standards of this section. Resale requirements must ensure, if the housing does not continue to be the principal residence of the family for the duration of the period of affordability that the housing is made available for subsequent purchase only to a buyer whose family qualifies as a low-income family and will use the property as the family's principal residence. Except as provided in paragraph (a)(5)(i)(B) of this section, deed restrictions, covenants running with the land, or other similar mechanisms must be used as the mechanism to impose the resale requirements.

Condition

While the City did not have any new loans within the fiscal year, the City has not performed continuing compliance checks on the loans reported on the SEFA.

Cause of the Condition

The Housing Department at the City has not documented the insurance documents it received for the loan continuing compliance requirements or perform follow up checks to ensure principal residence.

Effect or Possible Effect

Failure to timely document continuing loan compliance checks has resulted in noncompliance.

Questioned Costs

No questioned costs were identified (\$0).

Context

The City of Downey does receive insurance notification of expiring insurance then the Housing Department would check for loan compliance.

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2019.

Recommendation

We recommend that the City implement controls to document the insurance that is received by the City and the name listed is the homeowner of the loan.

Management Response and Corrective Action

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

Status of Prior Period Finding

This finding is not resolved. See Finding 2020-005 in the Schedule of Findings and Questioned Costs.



SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

Finding 2019-007: Subrecipient Monitoring Noncompliance/Significant Deficiency

Federal Award Information

CFDA Number: 14.239

Program Title: Home Investment Partnerships

Federal Award Number: M-16-MC-06-0541

Federal Award Year: 2016

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

Criteria or Specific Requirement

According to *Title 2 CFR, Subpart D, Subrecipient Monitoring and Management, Section 200.331, Requirements for pass-through entities*, all pass-through entities must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:

- Reviewing financial and performance reports required by the pass-through entity
- Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means
- Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the pass-through entity as required by management's decision (per Section 200.521)

Condition

As part of our audit testing, we sampled participants through the subrecipient for eligibility requirements and special test requirements that received HOME program funds from the City. We noted that while the subrecipient does perform the necessary eligibility requirements and special tests, the City was not maintaining responsibility over monitoring the subrecipient for these requirements.

Cause of the Condition

The Housing Division has not performed inspections of participants from the subrecipient to ensure the subrecipient is conforming to federal grant requirements.

Effect or Possible Effect

The subrecipient is performing the eligibility and special test requirements over their participants without oversight from the City. There is an increase risk of ineligible participants receiving funding.

Questioned Costs

No questioned costs were identified (\$0).

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SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

Context

The Housing Division is overseeing the allowability of costs from the subrecipient through the required bi-weekly reports. The reports also list the performance of the program funds.

Repeat Finding

This is a new finding for the fiscal year ended June 30, 2019.

Recommendation

We recommend that the City conduct an annual onsite inspection of documentation to ensure compliance with income verification and eligibility of participants, and to monitor subrecipient.

Management Response and Corrective Action

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

Status of Prior Period Finding

This finding is resolved. See Finding 2020-007 in the Schedule of Findings and Questioned Costs.

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