# CITY OF PASADENA, CALIFORNIA

# SINGLE AUDIT REPORT

# JUNE 30, 2017

CITY OF PASADENA, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2017

**CITY OF PASADENA**

**JUNE 30, 2017**

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LSL CPAs AND ADVISORS

# 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 Pasadena, 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pasadena, California, (the City) as of and for the year ended June 30, 2017, 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 15, 2017.

## 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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify the following deficiencies in internal control, as described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies: 2017-001 and 2017-002.

## 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 the following instances of noncompliance or other matters, as described in the accompanying schedule of findings and questioned costs, that are required to be reported under *Government Auditing Standards:* 2017-003.

**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 response was not subjected to the auditing procedures applied in the audit and, accordingly, we express no opinion on the response.

**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.

Lance, Soll & Lunghard, LLP

Brea, California
December 15, 2017

LSL

CPAs AND ADVISORS

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 Pasadena, California

**Report on Compliance for Each Major Federal Program**

We have audited the City of Pasadena, 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, 2017. 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.

***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

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An Association of Independent Accounting Firms

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

***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 2017-004 through 2017-007. 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.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-004 through 2017-007, that we consider 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.

LSL
CPAs AND ADVISORS

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

**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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pasadena, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 15, 2017, 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 & Lunghard, LLP

Brea, California
March 23, 2018 (except for our report on the Schedule of Expenditures of Federal Awards, for which the date is December 15, 2017)

**CITY OF PASADENA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

| Federal Grantor/Pass-Through Grantor/Program Title | CFDA Number | Pass-Through Grantor's Number | Federal Expenditures | Passed Through to Subrecipients |
|---|---|---|---|---|
| **U.S. Department of Agriculture** | | | | |
| Passed through the State of California | | | | |
| Department of Agriculture: | | | | |
| Special Supplemental Nutrition Program for Women, Infants and Children | 10.557 | 05-45781 | $ 1,031,439 | $ - |
| Passed through the State of California | | | | |
| Department of Health Service: | | | | |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | 13-20496 | 164,169 | - |
| | 10.561 | 16-10156 | 268,652 | - |
| **Total U.S. Department of Agriculture** | | | **1,464,260** | **-** |
| **U.S. Department of Housing and Urban Development** | | | | |
| Direct Programs: | | | | |
| Community Development Block Grants/Entitlement Grants * | 14.218 | N/A | 2,309,636 | 492,588 |
| Emergency Solutions Grant Program | 14.231 | N/A | 148,859 | 134,390 |
| Shelter Plus Care | 14.238 | N/A | 2,389 | - |
| Home Investment Partnerships Program | 14.239 | N/A | 356,350 | - |
| Continuum of Care Program * | 14.267 | N/A | 2,322,456 | 1,333,946 |
| Section 8 Housing Choice Vouchers | 14.871 | N/A | 13,253,911 | - |
| Passed through the City of Los Angeles: | | | | |
| Housing Opportunities for Persons with AIDS | 14.241 | C-126938 | 99,053 | - |
| **Total U.S. Department of Housing and Urban Development** | | | **18,492,654** | **1,960,924** |
| **U.S. Department of the Interior** | | | | |
| Direct Programs: | | | | |
| Water Conservation Field Services | 15.530 | N/A | 16,096 | - |
| **Total U.S. Department of the interior** | | | **16,096** | **-** |
| **U.S. Department of Justice** | | | | |
| Direct Programs: | | | | |
| Bulletproof Vest Partnership Program | 16.607 | N/A | 94 | - |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | N/A | 250,000 | - |
| Equitable Sharing Program | 16.922 | N/A | 138,192 | - |
| **Total U.S. Department of Justice** | | | **388,286** | **-** |
| **U.S. Department of Labor** | | | | |
| Passed through the State of California | | | | |
| Employment Development Department: | | | | |
| Employment Service/Wagner-Peyser Funded Activities | 17.207 | K7104595 | 87,039 | - |
| *WIOA Cluster* | | | | |
| WIA/WIOA Adult Program * | 17.258 | K698358, K7102027 | 810,431 | 219,770 |
| | 17.258 | K7102027 | 7 | - |
| | 17.258 | K7102027 | 57,452 | - |
| WIA/WIOA Youth Activities * | 17.259 | K698358, K7102027 | 492,242 | 15,549 |
| WIA/WIOA Dislocated Worker Formula Grants * | 17.278 | K698358, K7102027 | 814,553 | 254,757 |
| | 17.278 | K698358, K7102027 | 60,284 | - |
| | 17.278 | K7102027 | 209,672 | - |
| *WIOA Cluster Total* | | | 2,444,641 | 490,076 |
| **Total U.S. Department of Labor** | | | **2,531,680** | **490,076** |
| **U.S. Department of Transportation** | | | | |
| Passed through the State of California | | | | |
| Department of Transportation: | | | | |
| Highway Planning and Construction * | 20.205 | HP21L-5064-(020) | 4,005,829 | - |
| | 20.205 | BHLS-5064(078) | 110,964 | - |
| | 20.205 | CML-5064(079) | 1,380,900 | - |
| | 20.205 | HSIPL5064-(076) | 132,132 | - |
| | 20.205 | CML-5064(083) | 11,543 | - |
| Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research | 20.505 | 145.SCG03174.01 | 9,544 | - |
| *Transit Services Programs Cluster* | | | | |
| Enhanced Mobility for Seniors and Individuals with Disabilities * | 20.513 | 920000000PTPASA7422 | 1,055,950 | - |
| | 20.513 | 9200000005310FY1520 | 110,175 | - |
| Job Access and Reverse Commute Program * | 20.516 | CA-37-X100, CA-37-X123-01 | 38,631 | - |
| | 20.516 | CA-37-X171 | 277,497 | - |
| *Transit Services Programs Cluster Total* | | | 1,482,253 | - |
| State and Community Highway Safety | 20.600 | PT1621 | 69,042 | - |
| | 20.600 | PS1710 | 26,724 | - |
| | 20.600 | PS1789 | 233,054 | |
| **Total U.S. Department of Transportation** | | | **7,461,985** | **-** |

**CITY OF PASADENA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

| Federal Grantor/Pass-Through Grantor/Program Title | CFDA Number | Pass-Through Grantor's Number | Federal Expenditures | Passed Through to Subrecipients |
|---|---|---|---|---|
| **U.S. Department of the Treasury** | | | | |
| Direct Programs: | | | | |
| Equitable Sharing Program | 21.016 | N/A | 62,861 | - |
| **Total U.S. Department of the Treasury** | | | **62,861** | **-** |
| **U.S. Department of Health and Human Services** | | | | |
| Direct Programs: | | | | |
| Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances | 93.104 | N/A | 865,779 | - |
| Racial and Ethnic Approaches to Community Health * | 93.304 | N/A | 556,072 | - |
| Special Projects of National Significance | 93.928 | N/A | 249,686 | - |
| Passed through the County of Los Angeles: | | | | |
| Public Health Emergency Preparedness | 93.069 | PH-002221 | 279,964 | - |
| Temporary Assistance for Needy Families | 93.558 | IA0614 | 67,300 | - |
| HIV Prevention Activities Health Department Based | 93.940 | PH-00809-2 | 86,133 | - |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | PH-002813 | 293,243 | - |
| Passed through the State of California Department of Health Service: | | | | |
| Project Grants and Cooperative Agreements for Tuberculosis Control Programs | 93.116 | NU52PS004656 | 18,583 | - |
| Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children | 93.197 | 14-10028 | 103,480 | - |
| Immunization Cooperative Agreements | 93.268 | 13-20337 | 33,248 | - |
| Medical Assistance Program | 93.778 | RFA #15-10146 | 145,809 | - |
| Maternal and Child Health Services Block Grant to the States | 93.994 | 201061 | 337,645 | - |
| Passed through the City of Inglewood: | | | | |
| Temporary Assistance for Needy Families | 93.558 | 16WXXX22564 | 166,430 | - |
| **Total U.S. Department of Health and Human Services** | | | **3,203,372** | **-** |
| **U.S. Department of Homeland Security** | | | | |
| Passed through the City of Los Angeles: | | | | |
| Homeland Security Grant Program | 97.067 | EMW-2015-SS-00078 | 342,586 | - |
| **Total U.S. Department of Homeland Security** | | | **342,586** | **-** |
| **Total Expenditures of Federal Awards** | | | **$ 33,963,780** | **$ 2,451,000** |

**Federal Loan Balances with a Continuing Compliance Requirement**

| | | |
|---|---|---|
| CDBG Loan (beginning balance)* | 14.218 | $ 20,638,664 |
| CDBG Section 108 Loan | 14.248 | 6,000,000 |
| Section 8 Low Income Housing - Voucher Program (beginning balance) | 14.871 | 50,000 |
| HOME - Investment Partnership Program (beginning balance) | 14.239 | 11,382,928 |
| **Total Federal Loan Balances with a Continuing Compliance Requirement** | | 38,071,592 |
| **TOTAL EXPENDITURES OF FEDERAL AWARDS INCLUDING LOANS** | | **$ 72,035,372** |

* 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.

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2017

### 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 Pasadena, 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 Guarantee Program

On October 29, 2015, the City entered into a Contract for Loan Guarantee Assistance under Section 108 with the U.S. Department of Housing and Urban Development in the amount of $6,000,000 for the Robinson Park Project. Principal is payable in annual installments of $300,000 commencing on August 1, 2016 and ending August 1, 2035. Interest rate is variable and set on the first day of each month to 20 basis points (0.2%) above the London Interbank Offered Rate (LIBOR). Interest payment is paid quarterly from the effective date of November 12, 2015. The balance outstanding as of June 30, 2017, is $5,700,000.

### Note 3: Loan Programs with Continuing Compliance Requirements

The program costs listed below are administered directly by the City of Pasadena, and balances and transactions relating to these programs are included in the City's basic financial statements. Loans made during the year are included in the federal expenditures presented in the Schedule of Expenditures of Federal Awards. The balance of loans outstanding at June 30, 2017 consists of:

| CFDA Number | Program Name | Outstanding Balance at June 30, 2017 |
|---|---|---|
| 14.218 | CDBG Entitlement | $ 22,678,106 |
| 14.871 | Section 8 Low Income Housing - Voucher Program | 50,000 |
| 14.239 | HOME - Investment in Affordable Housing | 10,738,711 |
| | | **$ 33,466,817** |

**CITY OF PASADENA**

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

## SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

| | | |
|---|---|---|
| • Significant deficiencies identified? | X yes | ____ no |
| • Material weaknesses identified? | ____ yes | X none reported |

| | | |
|---|---|---|
| Noncompliance material to financial statements noted? | ____ yes | X no |

Federal Awards

Internal control over major programs:

| | | |
|---|---|---|
| • Significant deficiencies identified? | X yes | ____ no |
| • Material weaknesses identified? | ____ yes | X none reported |

Type of auditors' report issued on compliance for major programs: Unmodified Opinion

| | | |
|---|---|---|
| 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)? | X yes | ____ no |

Identification of major programs:

| CFDA Numbers | Name of Federal Program or Cluster |
|---|---|
| 14.218 | Community Development Block Grants/Entitlement Grants |
| 14.267 | Continuum of Care Program |
| 17.258 / 17.259 / 17.278 | WIOA Cluster |
| 20.205 | Highway Planning and Construction |
| 20.513 / 20.516 | Transit Services Programs Cluster |
| 93.304 | Racial and Ethnic Approaches to Community Health |

| | |
|---|---|
| Dollar threshold used to distinguish between type A and type B program | $2,161,061 |

| | | |
|---|---|---|
| Auditee qualified as low-risk auditee? | ____ yes | X no |

## SECTION II - FINANCIAL STATEMENT FINDINGS

**Finding 2017-001: Capital Assets Reconciliation**
Significant Deficiency

Condition
As a result of our audit procedures, it was noted that the City's capital assets processes are decentralized and that assets are not being reconciled regularly throughout the year. As a result, capital projects costs were being added to construction in process without sufficient review, leading to sufficient restatements in the current year to remove prior year costs from construction in process, which should have been previously expensed. Additionally, there is no formal process requiring departments to communicate disposals to finance, resulting in insufficient supporting documentation over disposals.

Management's Response and Corrective Action
The City agrees with this finding. Finance is reinforcing existing procedures to increase meetings with individual department project managers to twice a year to review their projects and help answer any questions that they have in regards to what expenses are qualified to be capitalized and which expenses should not. We will enhance existing asset disposal form to more formalize the disposal process, along with a reason for the disposal and the method of disposal, which will be authorized by an appropriate person from the department.

**Finding 2017-002: Cash Reconciling Items**
Significant Deficiency

Condition
During our audit procedures, we noted that the City lacks policy's requiring departments to finalize cash batches and investigate issues in a timely manner. As a result the City's bank reconciliations contain multiple reconciling items, some of which are close to a year old. We recommend that the City implement policies requiring all departments to close cash batches timely and correct any issues.

Management's Response and Corrective Action
The City agrees with this finding. The City will modify its policy for cash handling to require departments to submit complete, timely, and accurate batches. The policy will also include the requirement that all issues be investigated and resolved within five working days.

**Finding 2017-003: Housing Successor Excess Surplus**
Noncompliance

Condition
Per California Health and Safety Code section 34176.1, "If a housing successor has an excess surplus, the housing successor shall encumber the excess surplus for the purposes described in paragraph (3) of subdivision (a) or transfer the funds pursuant to paragraph (2) of subdivision (c) within three fiscal years. If the housing successor fails to comply with this subdivision, the housing successor, within 90 days of the end of the third fiscal year, shall transfer any excess surplus to the Department of Housing and Community Development for expenditure pursuant to the Multifamily Housing Program or the Joe Serna, Jr. Farmworker Housing Grant Program." We noted that the City has had an excess surplus since 2014 and has not yet encumbered or transferred the funds.

Management's Response and Corrective Action
The Excess/Surplus amount required to be encumbered by 6/30/17 was $644,915. Of this total, $451,440 was expensed and encumbered for eligible activities. The balance, $193,475, is required to be expended on projects serving Extremely Low Income (30% Area Median Income) households. Such projects include permanent supportive housing of which there were none available to commit the funds. On 12/18/17, the City submitted a request to the State to transfer the remaining balance and add it to the $929,745 FY 2018 Excess/Surplus encumbrance obligation. City staff plans to bring recommendations to City Council to encumber the Housing Successor Excess/Surplus obligation by the end of FY 2018.

## SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**Finding 2017-004 – Reporting**
Significant Deficiency

Federal Award Information
CFDA Number: 14.218
Program Title: Community Development Block Grants/Entitlement Grants
Federal Award Number: B-16-MC-06-0525
Federal Award Year: 2016
Name of Federal Agency: U.S. Department of 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, and annually thereafter.

Condition
As part of our audit testing, we obtained and inspected the FFATA report filed for the program year and determined that City did not prepare FFATA reports in a timely manner for the fiscal year ended June 30, 2017. All subrecipient awards were made between July 2016 and September 2016, but the FFATA report was filed in May 2017.

Cause of the Condition
For fiscal year 2015-2016, 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. After the release of the Single Audit Report for that fiscal year, the City filed the FFATA report for fiscal year 2016-2017; however, due to timing, the City was not able to 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 prior to the issuance of the Single Audit Report for the fiscal year ended June 30, 2016, when this condition was first reported. As such, the City did not have time to implement the appropriate changes to ensure compliance for the fiscal year ended June 30, 2017 but did implement them starting in May 2017.

Repeat Finding
This is a repeat finding. Refer to Finding 2016-004 in the Schedule of Prior Year Findings and Questioned Costs.

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
The recommended corrective action was implemented. The FFATA reports for all subrecipients contracted for the fiscal year 2016-17 were completed and submitted in May 2017, subsequent to the completion of the 2015-16 Single Audit.

**Finding 2017-005 – Subrecipient Monitoring**
Noncompliance/Significant Deficiency

Federal Award Information
CFDA Number: 14.267
Program Title: Continuum of Care Program
Federal Award Number: CA0655L9D071508, CA0658L9D071609, CA0658L9D071508, CA1447L9D071500, CA1259L9D071401, CA1259L9D071502, CA1363L9D071400, CA1363L9D071501
Federal Award Year: 2016
Name of Federal Agency: U.S. Department of 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 ensure that every subaward is clearly identified to the subrecipient as a subaward and include the following information at the time of the subaward and if any of these data elements change, include the changes in a subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. The required information includes:

- Subrecipient name
- Subrecipient's unique entity identifier
- Federal Award Identification Number (FAIN)
- Federal award date of award to the recipient by the Federal agency
- Subaward Period of Performance start and end date
- Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient
- Total amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation
- Total amount of the Federal award committed to the subrecipient by the pass-through entity
- Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
- Name of Federal awarding agency, pass-through entity, and contact information for awarding official at the pass-through entity
- CFDA number and name; the pass-through entity must identify the dollar amount made available under each federal award and the CFDA number at time of disbursement
- Identification of whether the award is R&D; and
- Indirect cost rate for the Federal award (including if the de minimis rate is charged per Section 200.414)

Condition
As part of our audit testing, we examined the Subrecipient files and agreements for four (4) subawards made to not-for-profit entities that receive Continuum of Care program funds from the City. We noted that the Subrecipient Agreements did not include CFDA Numbers, as required by the Uniform Guidance; thus, the information was not provided to the Subrecipients by the City.

Cause of the Condition
The Housing and Career Services Department, which administers the Continuum of Care Program, has not updated its Subrecipient Agreement Template to include the CFDA Numbers, as required by the Uniform Guidance.

Effect or Possible Effect
The Subrecipient Agreements made by the City did not meet the required information standards as described in the Uniform Guidance.

Questioned Costs
No questioned costs were identified ($0).

Context
Although technically not in compliance with the Uniform Guidance standards because CFDA and FAIN Numbers were not included/identified in the Subrecipient Agreements, the City did communicate and included other required Federal program information in each of the Subrecipient Agreements, such as the Federal Agency and the grant program name.

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

Recommendation
We recommend that the City update its Subrecipient Agreements to include the CFDA Number and review its agreements to ensure continued compliance with the Uniform Guidance.

Management Response
The management concurs with the finding. The subaward agreements are being modified to comply with the Uniform Guidance. The City is in the process of updating the subaward agreements to include the required grant information.

**Finding 2017-006 – Procurement, Suspension, and Debarment**
Noncompliance/Significant Deficiency

Federal Award Information
CFDA Number: 17.258
Program Title: WIA/WIOA Adult & Dislocated Worker Program
Federal Award Number: K698358, K7102027
Federal Award Year: 2016
Name of Federal Agency: U.S. Department of Labor

Criteria or Specific Requirement
Recipients of federal awards are required by 2 CFR sections 200.212, 200.318(h), 180.300, and 48 CFR section 52.209-6 to verify that an entity (such as a subrecipient or contractor) with which it plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded from receiving federal funds or working on federally funded projects.

Condition
As part of our audit procedures, we performed tests to verify that the City performed tests of its subaward recipients and contractors receiving program funds. We noted that for subawards made to certain not-for-profit entities that the City did not utilize the System for Awards Management (SAM) to verify that the subrecipient entity were not debarred or excluded from receiving federal funds before making the subaward.

Cause of the Condition
In November 2016, the City amended the Purchasing Handbook to require verification that subrecipients and contractors were not debarred and suspended, which was conducted subsequently and proof of SAM clearance is attached to the vendor's profile in Tyler Munis. However, the subawards questioned in this finding were made prior to the amended policy, thus no SAM check was conducted at the time of the award.

Effect or Possible Effect
For the fiscal year under audit, the City did not comply with the SAM verification requirements of the program. The possible effect of this condition is that there is increased risk that the City passed federal funding through to entities which are prohibited from receiving federal funds or administering federal programs.

Questioned Costs
No questioned costs were identified ($0).

Context
We examined the subrecipient files for the City's two (2) of two (2) subawards and noted that one was missing documentation for SAM clearance. The update to the City's RFP process was implemented during the fiscal year under audit and will affect future years' subrecipient RFPs.

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

Recommendation
We recommend that the City continue to implement and adhere to its new RFP policy regarding the provision of SAM clearance by potential contractors and subrecipients.

Management Response
Although the City could not locate the certification for the audit, another SAM check was conducted in December 2016. The City will ensure it maintains all of the required documents, including the certification and SAM checks, in the Tyler Munis ERP system.

**Finding 2017-007 – Procurement, Suspension, and Debarment**
Noncompliance/Significant Deficiency

Federal Award Information
CFDA Number: 20.205
Program Title: Highway Planning and Construction
Federal Award Numbers: HP21L-5064(020)
Federal Award Year: 2014
Name of Federal Agency: U.S. Department of Transportation
Pass-Through Entity: State of California Department of Transportation

Criteria or Specific Requirement
Recipients of federal awards are required by 2 CFR sections 200.212, 200.318(h), 180.300, and 48 CFR section 52.209-6 to verify that an entity (such as a subrecipient or contractor) with which it plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded from receiving federal funds or working on federally funded projects.

Condition
As part of our audit procedures, we performed tests to verify that the City performed tests of its contractors receiving program funds. We noted that for the construction contractor awarded the contract for the La Loma Bridge project, the City did not utilize the System for Awards Management (SAM) to verify that the contracting entity was not debarred or excluded from receiving federal funds before awarding the contract.

Cause of the Condition
In November 2016, the City amended the Purchasing Handbook to require verification that subrecipients and contractors were not debarred and suspended, which was conducted subsequently and proof of SAM clearance is attached to the vendor's profile in Tyler Munis. However, the subawards questioned in this finding were made prior to the amended policy, thus no SAM check was conducted at the time of the award.

Effect or Possible Effect
For the fiscal year under audit, the City did not comply with the SAM verification requirements of the program. The possible effect of this condition is that there is increased risk that the City passed federal funding through to entities which are prohibited from receiving federal funds or administering federal programs.

Questioned Costs
No questioned costs were identified ($0).

Context
We examined the contractor agreement for the La Loma Bridge project and noted that it was missing documentation for SAM clearance. This is an ongoing construction contract started in previous fiscal years, with no new construction contracts being awarded for the fiscal year ended June 30, 2017 for alternative testing. As such, we had no option but to test the same contract as in the prior year and report the same finding.

Repeat Finding
This is a repeat finding. Refer to Finding 2016-010 in the Schedule of Prior Year Findings and Questioned Costs.

Recommendation
We recommend that the City continue to implement and adhere to its new RFP policy regarding the provision of SAM clearance by potential contractors and subrecipients.

Management Response
As stated in the Context, this is a repeat finding because the auditor reviewed the same contract for this compliance testing, which had already been reported as a non-compliance finding in the 2015-16 (2016-010).

**CITY OF PASADENA**

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

## SECTION IV - FINANCIAL STATEMENT FINDINGS

**Finding 2016-001 – Financial Statement Close Process**
Material Weakness

Condition
As a result of our audit procedures, it was noted that the overall financial statement close process does not enable the City to close the records in a timely fashion. The following items were noted:

- Bank reconciliations not being completed within a timely manner after year-end
- Closing journal entries still being prepared after several months after year-end
- The CAFR not being ready before December 31

Management Response and Corrective Action
The City agrees with this finding. The City has a detailed plan for closing the fiscal year and publishing a timely CAFR. Implementing all of the core financial modules of an ERP system was a monumental task and proved to be more work than anticipated. Key milestones included completion of all bank reconciliations along with detailed analysis and review in order to accurately record all required closing entries. Finance is dependent on all Departments to timely submit all fiscal year invoices for payment and timely billing of receivables. These are two areas that require further improvement for Fiscal Year 2017. There is no shortcutting of these procedures and staff worked diligently to accomplish them.

Status of Prior Period Finding
This finding is considered to be resolved.

**Finding 2016-002 – Long-term Debt**
Significant Deficiency

Condition
During the fiscal year, the City executed an advance refunding of debt. Governmental Auditing, Accounting and Financial Reporting requirements state that an advance refunding results in a deferred gain/loss calculated as the difference between the reacquisition price of and the carrying value of the refunded debt at the time of refunding. Upon our initial review of the CAFR it was discovered that this deferred/inflow outflow was not recorded or disclosed. This resulted in a material adjustment to the Government-wide Statement of Net Position.

Management Response and Corrective Action
The City agrees with this finding but had already made the necessary corrections to the financial records prior to this being brought to our attention by the Auditors.

Status of Prior Period Finding
This finding is considered to be resolved.

**Finding 2016-003 – Grants Reconciliation**
Significant Deficiency

Condition
During our audit procedures of the federal grants, we noted that some grant activity was not documented on the schedule of federal awards and had not been reconciled to the general ledger at the end of the fiscal year resulting in adjustments to the schedule. This resulted in federal expenditures being reported in the incorrect accounting period. We recommend that grant activities be reconciled to the general ledger to avoid misreporting grant activity on the schedule of federal awards.

Management Response and Corrective Action
The City agrees with this finding and will work with Departments on timelier reporting of grant allocations and billings related to primarily grant funded Projects. The City does currently reconcile to the General Ledger.

Status of Prior Period Finding
This finding is considered to be resolved.

## SECTION V - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**Finding 2016-004 – Reporting**
Noncompliance/Material Weakness

Federal Award Information
CFDA Number: 14.218
Program Title: Community Development Block Grants/Entitlement Grants
Federal Award Number: B-15-MC-06-0525
Federal Award Year: 2015
Name of Federal Agency: U.S. Department of 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, and annually thereafter.

Condition
As part of our audit testing, we requested that the City provide us with the FFATA reports filed for each subrecipient with a subaward greater than $25,000. The City was not able to provide us with the reports and it became apparent that the reports were not prepared or filed.

Cause of the Condition
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.

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
We requested a total of eight (8) subrecipient FFATA reports, of which none were able to be provided.

Repeat Finding
This is a new finding for the fiscal year ended June 30, 2016.

Recommendation
We recommend that the City 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
This recommendation has been implemented. The City (Housing Department) has developed an internal department checklist, which will include attached copies of the required Federal Funding Accountability and Transparency Act (FFATA) report. The checklist, along with supporting documents, will be reviewed and approved by the Housing and Career Services Director prior to executing all federal grant award agreements.

Status of Prior Period Finding
This finding is considered resolved. The corrective action was taken as indicated in the 2015-16 Management Response and Corrective Action.

**Finding 2016-005 – Procurement, Suspension, and Debarment**
Noncompliance/Significant Deficiency

Federal Award Information
CFDA Number: 14.218
Program Title: Community Development Block Grants/Entitlement Grants
Federal Award Number: B-15-MC-06-0525
Federal Award Year: 2015
Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria or Specific Requirement
Recipients of federal awards are required by 2 CFR sections 200.212, 200.318(h), 180.300, and 48 CFR section 52.209-6 to verify that an entity (such as a subrecipient or contractor) with which it plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded from receiving federal funds or working on federally funded projects.

Condition
As part of our audit procedures, we performed tests to verify that the City performed tests of its subaward recipients and contractors receiving program funds. We noted that for subawards made to certain not-for-profit entities that the City did not utilize the System for Awards Management (SAM) to verify that the subrecipient entities were not debarred or excluded from receiving federal funds before making the subaward.

Cause of the Condition
The City recently amended its Request for Proposal (RFP) processes to require that potential subrecipients and contractors provide proof of SAM clearance, along with other documentation required by the RFP. This change to the policy was proposed after the prior year's Single Audit, but was not implemented until fiscal year 2015-2016 and after the subawards for that year had already been made.

Effect or Possible Effect
For the fiscal year under audit, the City did not comply with the SAM verification requirements of the program. The possible effect of this condition is that there is increased risk that the City passed federal funding through to entities which are prohibited from receiving federal funds or administering federal programs.

Questioned Costs
No questioned costs were identified ($0).

Context
We examined the subrecipient files for the City's eight (8) largest subawards and noted that each one was missing documentation for SAM clearance. The update to the City's RFP process was implemented during the fiscal year under audit, and will affect future years' subrecipient RFPs.

Repeat Finding
This is a repeat finding. Refer to Finding 2015-032 in the Schedule of Prior Year Findings and Questioned Costs.

Recommendation
We recommend that the City continue to implement and adhere to its new RFP policy regarding the provision of SAM clearance by potential contractors and subrecipients.

Management Response and Corrective Action
This recommendation has been implemented. The City revised its CDBG Request for Proposals (RFP) to include, as part of required supporting documentation, a clearance printout from the System of Award Management (SAM) to be included in submission of proposals for all eligible CDBG projects. Implementation of the revised RFP began with the 2016-2017 program year commencing July 1, 2016.

Status of Prior Period Finding
This finding is considered resolved. The corrective action was taken as indicated in the 2015-16 Management Response and Corrective Action.

**Finding 2016-006 – Reporting**
Noncompliance/Significant Deficiency

Federal Award Information
CFDA Number: 14.218
Program Title: Community Development Block Grants/Entitlement Grants
Federal Award Number: B-15-MC-06-0525
Federal Award Year: 2015
Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria or Specific Requirement
Part 4 of the Compliance Supplement requires that prime recipients of Community Development Block Grants (CDBG) funding submit the Integrated Disbursement and Information System (IDIS) *C04PR03 Activity Summary Report* and *the C04PR26 CDBG Financial Summary Report* within ninety (90) days after the end of the recipient's grant program year. The Department of Housing and Urban Development (HUD) also requires that the *HUD 60002 Section 3 Summary Report* be submitted to HUD at the same time as the CDBG recipient's *Consolidated Annual Performance and Evaluation Report* (CAPER), which is also due within ninety (90) days after the end of the program year.

Condition
During our audit testing, we inspected the *C04PR03 Activity Summary Report* and the *C04PR26 CDBG Financial Summary Report* and observed that the reports were dated January 31, 2017 and October 5, 2016, respectively. We also inspected the *HUD 60002 Section 3 Summary Report* and observed that it was dated January 10, 2017. The deadline for submitting each of these three reports was September 28, 2016, which is ninety (90) days after program year end of June 30, 2016.

Cause of the Condition
This condition was caused by inadequate internal controls regarding the identification, communication, and review of reporting deadlines for the grant program.

Effect or Possible Effect
The City is not in compliance with the reporting requirements of the CDBG program. Potentially, if reporting requirements are consistently not met, HUD may reconsider providing the City with CDBG funding.

Questioned Costs
No questioned costs were identified ($0).

Context
Only one of each of these reports are filed each program year. As such, any late filings would be considered to be noncompliance with the reporting requirements. The City was not late in the prior fiscal year, and we believe this finding is an isolated instance and not a consistent or pervasive problem.

Repeat Finding
This is a new finding for the fiscal year ended June 30, 2016.

Recommendation
We recommend that the City implement procedures and controls to identify 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
This recommendation has been implemented. The City's CDBG program has a deadline to perform financial close outs by August 15th. The City's Finance Department will finalize the *PR26 CDBG Financial Summary Report* by the first week of September, to be included in the *Consolidated Annual Performance and Evaluation Report* (CAPER) submission by the September 28th deadline. In addition, the *PR03 Activity Summary Report* will be included as an attachment to the CAPER, along with the *HUD 60002 Section 3 Summary Report*.

Status of Prior Period Finding
This finding is considered resolved. The corrective action was taken as indicated in the 2015-16 Management Response and Corrective Action.

**Finding 2016-007 – Reporting**
Significant Deficiency

Federal Award Information
CFDA Number: 14.218
Program Title: Community Development Block Grants/Entitlement Grants
Federal Award Number: B-15-MC-06-0525
Federal Award Year: 2015
Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria or Specific Requirement
The U.S. Department of Housing and Urban Development (HUD) allows for grantees to report their financial status on the *Standard Form 425 Federal Financial Report* (SF-425) using either the cash basis or the accrual basis of accounting. The requirement is that the reporting must be consistent.

Condition
During our audit testing of the *SF-425 Federal Financial Reports*, we observed that the reports indicated that they are prepared using the accrual basis of accounting. However, we noted that the reports are actually prepared on the cash basis of accounting.

Cause of the Condition
The condition as caused by inadequate internal controls relating to the preparation and review of the *SF-425 Federal Financial Reports.*

Effect or Possible Effect
The City's *SF-425 Federal Financial Reports* do not accurately represent the financial position of the program, as they incorrectly purport to include accruals for program expenditures.

Questioned Costs
No questioned costs were identified ($0).

Context
We examined the four (4) *SF-425 Federal Financial Reports* prepared for the program year and noted that each one is marked "accrual." We recalculated each report and noted that they were prepared on the cash basis of accounting.

Repeat Finding
This is a new finding for the fiscal year ended June 30, 2016.

Recommendation
We recommend that the City implement procedures and controls to review the reports that are prepared and to verify that all information contained within the reports is accurate.

Management Response and Corrective Action
The City agrees with this finding and will mark "cash basis" on the SF-425 Federal Financial Reports moving forward. The City chose "accrual basis" as it is the general accounting basis.

Status of Prior Period Finding
This finding is considered resolved. The corrective action was taken as indicated in the 2015-16 Management Response and Corrective Action.

**Finding 2016-008 – Special Tests and Provisions**
Noncompliance/Significant Deficiency

Federal Award Information
CFDA Number: 14.218
Program Title: Community Development Block Grants/Entitlement Grants
Federal Award Number: B-15-MC-06-0525
Federal Award Year: 2015
Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria or Specific Requirement
The U.S. Department of Housing and Urban Development (HUD) requires that grantees submit a *Consolidated Annual Performance and Evaluation Report* (CAPER) to report on the grantee's program accomplishments for each program year. The CAPER is to be submitted to HUD within ninety (90) days after the close of the grantee's program year.

Condition
As part of our audit procedures, we inspected the CAPER prepared by the City for the program year ended June 30, 2016. We observed that the CAPER was completed and submitted to HUD on October 11, 2016; the deadline to submit the CAPER to HUD was September 28, 2016, which is ninety (90) days after the program year-end.

Cause of the Condition
This condition was caused by inadequate internal controls regarding the identification, communication, and review of reporting deadlines for the grant program.

Effect or Possible Effect
The City is not in compliance with the reporting aspect of the Citizen Participation special provisions of the CDBG program. Potentially, if reporting requirements are consistently not met, HUD may reconsider providing the City with CDBG funding.

Questioned Costs
No questioned costs were identified ($0).

Context
Only one CAPER is filed each program year. As such, any late filing would be considered to be noncompliance with the program requirements.

Repeat Finding
This is a new finding for the fiscal year ended June 30, 2016.

Recommendation
We recommend that the City implement procedures and controls to identify 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 (Housing and Career Services Department) will publish the required 15-day notice of a CAPER public hearing by September 1st to allow for public comment. The City will finalize and approve the CAPER prior to September 28th in order to meet the HUD submission deadline.

Status of Prior Period Finding
This finding is considered resolved. The corrective action was taken as indicated in the 2015-16 Management Response and Corrective Action.

**Finding 2016-009 – Procurement, Suspension, and Debarment**
Noncompliance/Significant Deficiency

Federal Award Information
CFDA Number: 14.267
Program Title: Continuum of Care Program
Federal Award Numbers: CA0659L9D071407, CA1360L9D071400, CA0933L9D071405, CA1054L9D071404, CA0653L9D071401, CA0662L9D071205, and CA1363L9D071400
Federal Award Year: 2014
Name of Federal Agency: U.S. Department of Housing and Urban Development

Criteria or Specific Requirement
Recipients of federal awards are required by 2 CFR sections 200.212, 200.318(h), 180.300, and 48 CFR section 52.209-6 to verify that an entity (such as a subrecipient or contractor) with which it plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded from receiving federal funds or working on federally funded projects.

Condition
As part of our audit procedures, we performed tests to verify that the City performed tests of its subaward recipients and contractors receiving program funds. We noted that for subawards made to certain not-for-profit entities that the City did not utilize the System for Awards Management (SAM) to verify that the subrecipient entities were not debarred or excluded from receiving federal funds before making the subaward.

Cause of the Condition
The City recently amended its Request for Proposal (RFP) processes to require that potential subrecipients and contractors provide proof of SAM clearance, along with other documentation required by the RFP. This change to the policy was proposed after the prior year's Single Audit, but was not implemented until fiscal year 2015-2016 and after the subawards for that year had already been made.

Effect or Possible Effect
For the fiscal year under audit, the City did not comply with the SAM verification requirements of the program. The possible effect of this condition is that there is increased risk that the City passed federal funding through to entities which are prohibited from receiving federal funds or administering federal programs.

Questioned Costs
No questioned costs were identified ($0).

Context
We examined the subrecipient files for the City's eight (8) subawards and noted that each one was missing documentation for SAM clearance. The update to the City's RFP process was implemented during the fiscal year under audit, and should correct this finding in future years' audits.

Repeat Finding
This is a new finding for the fiscal year ended June 30, 2016.

Recommendation
We recommend that the City continue to implement and adhere to its new RFP policy regarding the provision of SAM clearance by potential contractors and subrecipients.

Management Response and Corrective Action
SAM clearance was pulled for the subrecipients following last year’s finding, which was after fiscal year 2016 Continuum of Care (CoC) contracting. As stated by the auditor, this issue will be resolved for future audits as a result of the steps put in place following last year’s Single Audit.

Status of Prior Period Finding
This finding is considered resolved. The corrective action was taken as indicated in the 2015-16 Management Response and Corrective Action.

**Finding 2016-010 – Procurement, Suspension, and Debarment**
Noncompliance/Significant Deficiency

Federal Award Information
CFDA Number: 20.205
Program Title: Highway Planning and Construction
Federal Award Numbers: HP21L-5062(020)
Federal Award Year: 2014
Name of Federal Agency: U.S. Department of Transportation
Pass-Through Entity: State of California Department of Transportation

Criteria or Specific Requirement
Recipients of federal awards are required by 2 CFR sections 200.212, 200.318(h), 180.300, and 48 CFR section 52.209-6 to verify that an entity (such as a subrecipient or contractor) with which it plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded from receiving federal funds or working on federally funded projects.

Condition
As part of our audit procedures, we performed tests to verify that the City performed tests of its subaward recipients and contractors receiving program funds. We noted that for the construction contractor awarded the contract for the La Loma Bridge project the City did not utilize the System for Awards Management (SAM) to verify that the subrecipient entities were not debarred or excluded from receiving federal funds before making the subaward.

Cause of the Condition
The City recently amended its Request for Proposal (RFP) processes to require that potential subrecipients and contractors provide proof of SAM clearance, along with other documentation required by the RFP. This change to the policy was proposed after the prior year's Single Audit, but was not implemented until fiscal year 2015-2016 and after the subawards for that year had already been made.

Effect or Possible Effect
For the fiscal year under audit, the City did not comply with the SAM verification requirements of the program. The possible effect of this condition is that there is increased risk that the City passed federal funding through to entities which are prohibited from receiving federal funds or administering federal programs.

Questioned Costs
No questioned costs were identified ($0).

Context
We examined the contractor agreement for the La Loma Bridge project and noted that it was missing documentation for SAM clearance. The update to the City's RFP process was implemented during the fiscal year under audit, and should correct this finding in future years' audits.

Repeat Finding
This is a new finding for the fiscal year ended June 30, 2016.

Recommendation
We recommend that the City continue to implement and adhere to its new RFP policy regarding the provision of SAM clearance by potential contractors and subrecipients.

Management Response and Corrective Action
The City agrees with this finding. The City started implementing the new RFP policy which required SAM clearance for subrecipients and contractors in the middle of fiscal year 2016. The City will enforce the RFP policy moving forward.

Status of Prior Period Finding
This finding is considered resolved. The corrective action was taken as indicated in the 2015-16 Management Response and Corrective Action.