

CITY OF DOWNEY, CALIFORNIA
SINGLE AUDIT OF FEDERALLY ASSISTED
GRANT PROGRAMS

JUNE 30, 2012

CITY OF DOWNEY

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and
Members of City Council
City of Downey
Downey, California

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 (the City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 30, 2013. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting described in the accompanying schedule of findings and questioned costs as Finding Number 2012-01 that we consider to be a significant deficiency. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted other matters that we reported to management of the City in a separate letter dated January 30, 2013.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management, City Council, others within the City, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

White Nelson Dick Evans LLP

Irvine, California

January 30, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133 AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Honorable Mayor and
Members of City Council
City of Downey
Downey, California

Compliance

We have audited the City of Downey's (the City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the 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, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of finding and questioned costs as Finding Number 2012-02.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Internal Control Over Compliance (Continued)

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 30, 2013, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of the City's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on the City's compliance but not to provide an opinion on the effectiveness of City's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

White Nelson Nick Evans LLP

Irvine, California

March 25, 2013, except to the date for the Schedule of Expenditures of Federal Awards, to which the date is January 30, 2013.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

CITY OF DOWNEY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2012

Federal Grantor / Pass - Through / Program Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Financial Award Amount	Expenditures
<u>U.S. Department of Housing and</u>				
<u>Urban Development</u>				
Community Development Block Grants Cluster:				
Direct Assistance:				
Community Development Block				
Entitlement Grant	14.218	B-10-MC-06-0516 B-11-MC-06-0516	\$ 1,615,728 1,348,503	\$ 2,069,435
ARRA - Community Development Block				
Grant - Entitlement Grant	14.253	B-09-MY-06-0516	400,180	152,500
Passed through City of Paramount:				
Housing and Economic Recovery				
Act (HERA)	14.254	(1)	695,825	<u>267,541</u>
Total CDBG - Entitlement Grants Cluster				2,489,476
Home Investment Partnership Act Program				
	14.239	M-10-MC-06-0541 M-11-MC-06-0541	793,709 700,654	839,317
ARRA - Homelessness Prevention and				
Rapid Re-housing Program (HPRP)	14.257	S-09-MY-06-0516	611,834	<u>32,709</u>
Total U.S. Department of Housing and Urban Development				<u>3,361,502</u>
<u>U.S. Department of Justice</u>				
Edward Byrne Memorial				
Justice Assistance Grant	16.738	2010 2011	51,484 42,678	35,000
Federal Asset Forfeiture				
	16.000	(1)	N/A	<u>598,331</u>
Total U.S. Department of Justice				<u>633,331</u>

(Continued)

See Accompanying Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A - 133 and on the Schedule of Expenditures of Federal Awards (pages 3 and 4) and Notes to Schedule of Expenditures of Federal Awards (pages 7 and 8).

CITY OF DOWNEY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)

For the year ended June 30, 2012

Federal Grantor / Pass - Through / Program Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Financial Award Amount	Expenditures
<u>U.S. Department of Transportation</u>				
Passed through California Department of Transportation: Highway Planning and Construction Program	20.205	ESPL-5334(034) HSIPL-5334 (040)	\$ 747,417 180,180	\$ 590,789
ARRA - Highway Planning and Construction Program	20.205	ESPL-5334 (034)	3,317,000	<u>1,562,363</u>
Total Highway Planning and Construction Program				2,153,152
Passed through University of California, Berkeley: State and Community Highway Safety	20.600	SC21117 CT11117	38,120 2,557	<u>41,998</u>
Total U.S. Department of Transportation				<u>2,195,150</u>
<u>U.S. Department of Energy</u>				
ARRA - Energy Efficiency and Conservation Block Grant Program	81.128	DESC0001656	1,014,000	<u>885,095</u>
<u>Department of Homeland Security</u>				
Passed through County of Los Angeles: State Homeland Security Grant Program	97.067	2009 2010	81,601 140,600	<u>56,529</u>
<u>National Aeronautics and Space Administration</u>				
Columbia Memorial Space Learning Center	None	NNX09AQ48G	700,000	<u>192,258</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 7,323,865</u>

(1) Program identification numbers are not available.

See Accompanying Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A - 133 and on the Schedule of Expenditures of Federal Awards (pages 3 and 4) and Notes to Schedule of Expenditures of Federal Awards (pages 7 and 8).

CITY OF DOWNEY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2012

1. GENERAL:

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Downey (the City). The City's reporting entity is defined in note 1 of the notes to the City's financial statements. All financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies to the City is included in the accompanying schedule.

2. BASIS OF ACCOUNTING:

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting for governmental funds and the accrual basis for proprietary funds, which is described in the Note 1 of the notes to the City's financial statements.

3. RELATIONSHIP TO COMPREHENSIVE ANNUAL FINANCIAL REPORT:

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree to amounts reported within the City's Comprehensive Annual Financial Report.

4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree with amounts reported in federal financial reports.

5. CONTINGENCIES:

Under the terms of federal and state grants, additional audits may be requested by the grantor agencies and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

See Accompanying Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards (pages 3 and 4) and Schedule of Expenditures of Federal Awards (pages 5 and 6).

CITY OF DOWNEY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)

For the year ended June 30, 2012

6. FEDERALLY FUNDED LOANS:

The City administers loans, primarily deferred loans, made from funds provided by the following federal programs:

<u>Federal Programs</u>	<u>Loans Expended During the Year Ended June 30, 2012</u>	<u>Loans Outstanding as of June 30, 2012</u>
Community Development Block Entitlement Grant CFDA #14.218	\$ -	\$ 695,726
HOME Investment Partnership Act Program CFDA #14.239	\$ 578,838	\$ 5,644,467

7. SUBRECIPIENTS:

During the fiscal year ended June 30, 2012, the City disbursed federal funds to the following subrecipients under the Community Development Block Entitlement Grant program (CFDA #14.218):

	<u>Amount Disbursed</u>
ARC of Southeast L.A. County	\$ 9,603
Downey Unified School District	25,885
Rio Hondo Temporary Home	14,613
DUSD - True Lasting Connection Family Resource Center	5,000
So. California Rehabilitation Services, Inc.	<u>1,670</u>
	<u>\$ 56,771</u>

See Accompanying Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards (pages 3 and 4) and Schedule of Expenditures of Federal Awards (pages 5 and 6).

CITY OF DOWNEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2012

1. SUMMARY OF AUDITORS' RESULTS:

Financial Statements:

Type of auditor's report issued:

- Unqualified

Internal control over financial reporting:

Material weakness identified? ___ yes x no

Significant deficiency identified? x yes ___ none reported
Finding Reference Number 2012-01

Noncompliance material to financial statements noted: ___ yes x no

Federal Awards:

Internal control over major programs:

- Material weakness identified? ___ yes x no
- Significant deficiency identified? ___ yes x none reported

Type of auditor's report issued on compliance for major programs:

- Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? x yes ___ no
Finding Reference Number 2012-02

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.239	HOME Investment Partnership Act
16.000	U.S. Department of Justice - Federal Asset Forfeiture
20.205	Highway Planning and Construction
20.205	ARRA - Highway Planning and Construction
81.128	ARRA - Energy Efficiency and Conservation Block Grant

See Accompanying 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 and Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards (pages 1 through 4).

CITY OF DOWNEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2012

2. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED):

Finding Number 2012-01 (Continued)

Management Response (Continued)

The shrinkage in staff size and the loss of years of experience and institutional knowledge have a significant impact on the operation of Finance Department. Facing the fiscal year-end closing and the required audit pertaining to redevelopment dissolution, we have hired two temporary part-time accountants to fill in two accountant vacant positions starting late June 2012. The temporary accountants have completed months of bank reconciliations that were reviewed by Finance manager. The City understands the importance of timely completion of bank reconciliation and unfortunately it is impossible to accomplish that objective with limited staffing during the transition period. The City hired two permanent full time accountants on February 25, 2013 and will make sure the bank reconciliation process is completed on a timely manner and properly reviewed.

3. FINDINGS - MAJOR FEDERAL AWARD PROGRAM AUDIT:

Finding Number 2012-02

Major Program

U.S. Department of Housing and Urban Development - HOME Investment Partnership Act Program; CFDA No. 14.239; Grant Identification Nos. M-10-MC-06-0541 and M-11-MC-06-0541.

Criteria

Federal regulations require submission of Consolidated Annual Performance and Evaluation Report. The format and content of this report is specified by HUD.

Condition

We noted that information related to HOME included in the CAPER did not agree with the City's internal accounting records.

See Accompanying 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 and Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards (pages 1 through 4).

CITY OF DOWNEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2012

3. FINDINGS - MAJOR FEDERAL AWARD PROGRAM AUDIT (CONTINUED):

Finding Number 2012-02 (Continued)

Questioned Costs

None

Cause

Due to staff layoff and reductions in the both the Housing Division and the Finance Department the administrative and reporting functions were significantly impacted. In-house resources were severely taxed during the period the 2011-2012 CAPER submission was due. The City incorrectly completed the HUD-40107 report by over reporting.

Effect

The CAPER submitted includes inaccurate information.

Recommendation

We recommend that the City establish procedures to ensure information included in reports submitted to HUD is accurate and agrees to City's internal accounting records.

Management Response

The program income section of the report will be corrected and a revised HUD 40107 will be resubmitted to the U.S. Department of Housing and Urban Development.

See Accompanying 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 and Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards (pages 1 through 4).

CITY OF DOWNEY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2012

Financial Statement Findings

Finding Number 2011-01

Criteria

An important element of internal control over cash is the reconciliation process which enables City staff to identify differences between the bank and general ledger balances and resolve such differences in a timely manner.

Condition

During our testing of bank reconciliations, we noted several instances in which the monthly bank reconciliation process was not completed and reviewed timely.

Recommendation

We recommend that the monthly bank reconciliation process be completed and reviewed in a timely basis.

Current Status

See finding number 2012-01.

See Accompanying 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 and Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards (pages 1 through 4).