

CITY OF AZUSA, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2013

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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 Azusa, 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 Azusa, California, (the City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as finding 2013-001, 2013-002, 2013-003, and 2013-004 to be material weaknesses in internal control.



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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

The City's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs and/or corrective action plan. The City's responses was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Lughard, LLP

Brea, California
March 10, 2014

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 OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of Azusa California (the City)'s compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2013. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of law, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express opinions 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 the *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB 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 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 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, 2013.

Other Matters

The City's response to the noncompliance findings identified in the prior year are described in the schedule of prior year findings and questioned costs. The City's responses were not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



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

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the type 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 controls over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a 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.

Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Azusa, California, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 10, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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.



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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Lingham, LLP

Brea, California
March 10, 2014

CITY OF AZUSA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Pass through from the County of Los Angeles: Community Development Block Grant *	14.218	Contract# 70713	\$ 394,464
Total U.S. Department of Housing and Urban Development			394,464
<u>U.S. Department of Justice</u>			
Direct Program: Bureau of Justice Assistance: Federal Asset Seizure	16.000	N/A	203,760
Passed through the City of Los Angeles: ARRA - Edward Byrnes Memorial Justice Assistance Grant	16.804	C-116430 2012-DJ-BX-1191	6,439 17,268
Total U.S. Department of Justice			227,467
<u>U.S. Department of Transportation</u>			
Passed through the State of California: Department of Transportation: Highway Planning and Construction *	20.205	SRTSLNI-5112(015) HPLUL-5112(013)	85,714 263,774
Passed through the State of California: Office of Traffic Safety: Sobriety Checkpoint	20.600	SC12 026 SC13 026	6,200 17,132
Total U.S. Department of Transportation			372,820
<u>U.S. Department of Health and Human Services</u>			
Passed through the County of Los Angeles: Administration for Community Living Special Programs for the Aging Title III Part C Nutrition Services	93.045	AAA-ENP2-0809-001	116,828
Center for Disease Control and Prevention ARRA - Prevention and Wellness - Communities Putting Prevention to Work Funding Opportunities Announcement	93.724	PH-001128	7,000
Total U.S. Department of Health and Human Services			123,828
<u>U.S. Department of Homeland Security</u>			
Passed through the County of Los Angeles: Homeland Security Grant Program	97.067	2009-0019	249,151
Total U.S. Department of Homeland Security			249,151
Total Federal Expenditures			\$ 1,367,730

* Major Program

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

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

Note C: Total amount provided to subrecipients during the year was \$19,996.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

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 Azusa, 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.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Number 2013-001: Excessive Post Audit Entries

In the prior year it was brought to your attention that many account balances required extensive reconciliation to finalize financial information. During our audit in the current year this weakness still existed. The City proposed a large amount of entries that needed to be posted by LSL which has caused significant delays in producing the financial statements. This lack of planning and preparation in future years will continue to cause delays in the timeliness of financial statement drafts being available. We suggest that this situation be corrected as soon as possible, and that all accounts be properly reconciled and all entries prepared prior to our arrival for field work.

Management's Response:

Management will closely monitor that entries are recorded timely prior to the commencement of the annual audit. Staff has been instructed and reassigned responsibilities to ensure that their funds' financial statements are completed on time.

Finding Number 2013-002: Cash and Investments

During our testwork it was noted that the City's cash and investment were not properly balanced to the general ledger in a timely manner. The design of internal control should be improved upon to include a formalized procedure to properly balance and reconcile all of the City's cash and investments as reported in the City's financial statements.

Management's Response:

The department lost a staff member to retirement whose main responsibility was to balance our cash and investment accounts. This caused remaining staff to pick up the responsibility. Currently, there are two employees who are now aware of the process of the reconciliation and will ensure that it is completed prior to the audit commencing.

Finding Number 2013-003: Accounting for Grants

During our audit procedures, we reviewed the Schedule of Federal Expenditures and Awards, as well as the Schedule of Non Federal Expenditures and Awards prepared by management and noted that it did not properly record the activity related to all grants. The City neglected to include neither deferred revenue for monies spent but not yet reimbursed, nor unearned revenue for monies received but not yet earned. Adjusting entries were made by LSL to eradicate these issues.

Management's Response:

Management and staff will ensure that the activities are recorded appropriately.

Finding Number 2013-004: Due To and From Other Funds

It is noted that the due to and from other funds between the General Fund and the Water Fund has crossed into multiple years and continues to increase. The due to and from other funds is used as short-term (less than one year) borrowing between funds. Since these borrowings are required over multiple years, we recommend a formal advance (long-term loan agreement) be entered into between the General Fund and the Water Fund. We also recommend a formal fiscal policy to be implemented to assess the future financial cashflow of the General Fund, which would identify when these loan agreements need to be entered into in advance.

CITY OF AZUSA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

Management's Response:

A loan agreement will be entered should the need arise next year and a formal fiscal policy will be created and implemented to provide a system of assessment of the financial status of the General Fund.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Number 2012-001: Financial Reporting Software

During our test work it was noted that the Financial Software currently used by the City does not actually close out the prior fiscal year. This causes difficulties if an erroneous error gets posted into the system, and there are not adequate safeguards in place to mitigate the risk. Additionally, the City hadn't been using a journal entry log prior to our noting this item so it would be difficult to detect if an error had been posted to the wrong fiscal year.

Finding Number 2012-002: Override of Controls

It was noted in the prior year that the accounts payable account specialist had access to add or change vendors. A recommendation was made by LSL and implemented by the City to restrict this employee from having access to add or change vendors because that same employee processes accounts payable, which increases the risk of error and fraud. During our test work it was noted that the accounts payable account specialist had access to add or change vendors through the use of another employee's username and password. This makes the controls ineffective and we recommend that employees keep passwords and usernames private.

Finding Number 2012-003: Reconciliation of Cash

During our test work it was noted that the cash with fiscal agent balances were not properly reconciled. The current format for the bank reconciliations involves many different employees responsible for different accounts, and makes the overall reconciliation to the General Ledger difficult. We recommend that the City include all cash on hand in the treasurer's report and verify the cash with fiscal agent amounts properly reconcile. The main issue this year was the result of the defeasance of old debt and the issuance of the 2012 Water and Electric Bonds, resulting in an overstatement of cash by over \$11 million. Adjusting entries were made by LSL to properly reconcile cash at June 30, 2012.

Finding Number 2012-004: Accounting for Grants

During our audit procedures, we reviewed the Schedule of Federal Expenditures and Awards, as well as the Schedule of Non Federal Expenditures and Awards prepared by management and noted that it did not properly record the activity related to all grants. The City neglected to include neither deferred revenue for monies spent but not yet reimbursed, nor unearned revenue for monies received but not yet earned. Adjusting entries were made by LSL to eradicate these issues.

Finding Number 2012-005: Accounts Payable Cutoff

During our search for unrecorded liabilities, we noted an exception in which an invoice related to goods received or services performed prior to the year-end date were not recorded as a payable in the proper period. Proper cutoffs are critical for the accuracy of the accrual basis of accounting. We suggest that the City implement proper accounting policies and procedures to ensure the cutoff is done correctly in future years.

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding Number 2012-006: Journal Entry Filing System

During our test work it was noted that Journal Entries for the past six months of the fiscal year had not been properly filed, making it difficult to find specific entries that hadn't been filed as of the date of our test work. At times during the audit process journal entries could not be located and duplicates had to be printed using the accounting software, but the support for the entry was not available. Supporting documentation for items recorded in the books of accounts should be readily available within the organization. We strongly recommend that a better system of document file maintenance be implemented. A solid system of file maintenance is a basic element of a strong system of accounting procedures and related controls.

Finding Number 2012-007: Excessive Post Audit Entries

During our audit, we noted many account balances require extensive reconciliation to finalize financial information that can be relied on. This resulted in a large amount of entries proposed by the City that needed to be posted by LSL which has caused significant delays in producing the financial statements. This lack of planning and preparation in future years will continue to cause delays in the timeliness of financial statement drafts being available. We suggest that this situation be corrected as soon as possible, and that all accounts be properly reconciled and all entries prepared prior to our arrival for field work.

Finding Number 2012-008: Negative Cash in the General Fund

We noted that the General Fund had a negative cash balance at June 30, 2012. LSL performed a reclassifying entry to move cash from the Water Utility Fund to the General Fund and set up a short-term receivable in the Water Utility Fund. We recommend that this situation be evaluated and if it is determined that the General Fund will have negative cash for an extended period we recommend that a formal advance or loan be established between the two funds. Future plans and budgets should be developed with the knowledge that the City needs to replenish these funds.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding Number 2012-009:

Federal Program:

CFDA number: 20.205
Title: Department of Transportation – ARRA – Highway Planning and Construction
Federal Grantor: U.S. Department of Transportation
Grant number: ESPL-5112(012)

Criteria or specified requirement:

The U.S. Department of Transportation A-133 compliance requires quarterly reports (Section 1512) be submitted to within 10 days following the end of the quarter for periods ending September 30, December 30, March 30, and June 30.

Condition:

The City did not file the required quarterly reports outlined in the A-133 compliance requirement.

CITY OF AZUSA

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

Questioned Costs:

None

Context:

The City's grants are decentralized and the department administering the grant did not properly file the quarterly reports in a timely manner. We believe this resulted from a systemic issue of internal control.

Effect:

The City is not in compliance with the A-133 requirements.

Recommendation:

We recommend that management designate personnel who will be responsible for the timely submission of these reports.

Management's Response:

Management will analyze its staffing resources to determine which staff to assign the monitoring and analyzing of grants. This employee will ensure the compliance requirements of the grants are met in a timely manner.

Status:

Reports are now filed timely and no late filing was noted in fiscal year 2012-2013.