

**CITY OF AZUSA, CALIFORNIA**

**SINGLE AUDIT REPORT**

**JUNE 30, 2014**

CITY OF AZUSA, CALIFORNIA

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**CITY OF AZUSA**

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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 City of Azusa, California, (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 28, 2015.

**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 a deficiency in internal control that we consider to be a material weakness.

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. As described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-001 and 2014-002 to be material weaknesses.

**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



To the Honorable Mayor and Members of the City Council  
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those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. Refer to findings 2014-003 and 2014-004.

#### **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, Solt & Lughard, LLP*

Brea, California  
March 26, 2015

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's (the City) 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, 2014. 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 laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' 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 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 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, 2014.

**Report on Internal Control over Compliance**

Management of the City of Azusa, California 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



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expressing an opinion on compliance for each major federal program 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.

*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.

#### **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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated January 28, 2015, 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.

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 report is not suitable for any other purpose.

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

Brea, California

March 26, 2015 (except for the schedule of Expenditures of Federal Awards which is as of  
January 28, 2015)

CITY OF AZUSA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<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	\$ 345,169
<b>Total U.S. Department of Housing and Urban Development</b>			<b><u>345,169</u></b>
<u>U.S. Department of Justice</u> Direct Program: Bureau of Justice Assistance: Federal Asset Seizure*	16.922	CA0190500	442,726
Passed through the City of Los Angeles: ARRA - Edward Byrne Memorial Justice Assistance Grant	16.804	2013-DJ-BX-1078	<u>18,017</u>
<b>Total U.S. Department of Justice</b>			<b><u>460,743</u></b>
<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) SRTSLNI-5112(016)	167,204 583,137 9,450
Passed through the State of California: Office of Traffic Safety: Sobriety Checkpoint	20.600	SC14 026 PT1449 SC13 026	6,969 14,643 4,572
<b>Total U.S. Department of Transportation</b>			<b><u>785,975</u></b>
<u>Institute of Museum and Library Services</u> Passed through the State of California: Grassroots ESL	45.310		<u>34,958</u>
<b>Total Institute of Museum and Library Services</b>			<b><u>34,958</u></b>
<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	<u>142,919</u>
<b>Total U.S. Department of Health and Human Services</b>			<b><u>142,919</u></b>
<u>U.S. Department of Homeland Security</u> Passed through the County of Los Angeles: Homeland Security Grant Program	97.067		<u>125,000</u>
<b>Total U.S. Department of Homeland Security</b>			<b><u>125,000</u></b>
<b>Total Federal Expenditures</b>			<b><u>\$ 1,894,764</u></b>

\* 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, 2014**

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**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, 2014**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

**Finding Number 2014-001: 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. In performing our audit procedures, there were adjusting entries recorded by the auditing staff to report account balances accurately. Material journal entries were recommended and adjustments were made relating to capitalized construction projects, insurance liability, restatements, and debt in the Successor Agency. We recommend quarterly and annually reconciliations of complex accounting areas, such as capital assets, insurance reserves and debt reporting to the supporting documentation and general ledger prior to the audit.

**Management's Response:**

Reassignment of duties and responsibilities have been revised to provide efficiency. Management will continue to closely monitor that entries are recorded timely.

**Finding Number 2014-002: Cash and Investments**

In the prior year it was brought to your attention that cash required extensive reconciliation to finalize financial information. During our audit in the current year, this weakness still existed. During our test work 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:**

Internal control procedures are in the process of being developed formally which should contribute to timely reconciliations. In addition, we have new staff who are being trained to assist in the reconciliations.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding Reference Number: 2014-003**  
**Federal Program Title: Equitable Sharing Program**  
**Federal Catalog Number: 16.922**  
**Federal Agency: U.S. Department of Justice**  
**Pass-Through Entity: N/A**  
**Federal Award Number and Year: CA0190500; 2013**  
**Name of Department: Police Department**  
**Category of Finding: Equipment and Real Property Management**

**Criteria**

The *March 2014 Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* requires that physical inventory be taken of property and equipment acquired under Federal awards at least every two (2) years. Equipment obtained under federal awards are required to be added to the property records of the recipient including the following information: description, source, who holds title, acquisition date and cost, percentage of federal participation in the cost, location, condition, disposition data, the date of disposal, and method used to determine current fair market value.

## CITY OF AZUSA

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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#### Condition

*Instance of Non-Compliance* - The Police Department is required to take physical inventory of federal award purchases and ensure any differences between physical inventory and equipment records are resolved. No physical inventory has been taken for equipment purchases of federal asset seizure funds.

#### Effect

Failure to not take physical inventory of property and equipment obtained under federal awards can result in federal agency disallowing equipment purchases and noncompliance with agreement. Not properly including all purchased and donated equipment and real property including all the required information in the property records can result in the noncompliance with federal regulations regarding federal property and equipment.

#### Questioned Costs

We identified no questioned costs in our tests of compliance with this requirement.

#### Context

As a result of our testwork, it was noted that no physical inventory has taken place for equipment purchases of federal asset seizure funds.

#### Recommendation

We recommend that the Police Department adhere to equipment and real property management policies and procedures set by Department of Justice and take physical inventory of assets every 2 years.

#### Management Response and Corrective Action

1. Person responsible: Ericka Ceccia, Administrative Analyst; Police Department
2. Corrective action plan: Physical Inventory purchased with Federal Asset Seizure Funds will be conducted every 2 years.
3. Anticipated implementation date: March 25, 2015 (Immediately after learning that it was most likely required by DOJ; We began taking Physical Inventory) Confirmed by DOJ 3/27/15

#### **Finding Reference Number: 2014-004**

**Federal Program Title: Equitable Sharing Program**

**Federal Catalog Number: 16.922**

**Federal Agency: U.S. Department of Justice**

**Pass-Through Entity: N/A**

**Federal Award Number and Year: CA0190500; 2013**

**Name of Department: Police Department**

**Category of Finding: Reporting**

#### Criteria

The Equitable Sharing Agreement between the City of Azusa and U.S. Department of Justice states that the Equitable Sharing Certification report "must be submitted to [aca.submit@usdoj.gov](mailto:aca.submit@usdoj.gov) within 60 days of the end of the [City's] fiscal year. This Document must be submitted electronically with the Affidavit/Signature submitted by fax. This will constitute submission to the Department of Justice and the Department of Treasury."

#### Condition

*Instance of Non-Compliance* - The Police Department is required to submit the Equitable Sharing Certification report within 60 days after the City's fiscal year end. During our review, it was noted that the Equitable Sharing Certification report was submitted after 60 days of the fiscal year end June 30, 2014. The report was submitted December 22, 2014, 115 days after the deadline.

#### Effect

Failure to submit the Equitable Sharing Certification report within 60 days of fiscal year end can result in federal agency disallowing participation and funds and/or noncompliance with agreement.

**CITY OF AZUSA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**Questioned Costs**

We identified no questioned costs in our tests of compliance with this requirement.

**Context**

The City of Azusa's Police Department failed to submit the Equitable Sharing Certification report timely within 60 days of year end as stipulated in the grant agreement.

**Recommendation**

We recommend that the Police Department adhere to grant agreement reporting submission deadline set by Department of Justice and submit the Equitable Sharing Certification report timely within 60 days after year end.

**Management Response and Corrective Action**

1. Person responsible: Ericka Ceccia, Administrative Analyst; Police Department
2. Corrective action plan: Future Reports to be submitted within 60 days of fiscal year end date or written proof of additional time granted by DOJ staff to submit report (per "Guide to Equitable Sharing" pg. 29) (Unfortunately, additional time to comply was granted verbally for fiscal year end 2014, but no proof could be provided)
3. Anticipated implementation date: March 25, 2015

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

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

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**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.