



Information item

Date: May 14, 2015

To: Mayor and City Council
From: Gigi Decavalles-Hughes, Director of Finance
Subject: Single Audit Reports and Housing Financial Data Schedules
For the Fiscal Year Ended June 30, 2014

Introduction

Attached are the Single Audit Reports and the Housing Financial Data Schedules for the fiscal year ended June 30, 2014. City staff has prepared the Statement of Expenditures of Federal Awards (SEFA) included in the report and the City's independent auditors Macias, Gini & O'Connell LLC (MGO) have tested the City's major federal programs to express an opinion on the compliance requirements. MGO has issued an unmodified, or clean, opinion for the fiscal year ended June 30, 2014 and no audit findings have been noted in this year's Single Audit Reports.

Discussion

The Single Audit Act of 1984 as amended in 1996 and OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* requires non-federal entities (NFEs) expending \$500,000 or more a year in federal awards to have a single audit if federal awards are received. NFEs can receive federal awards either directly from a federal entity as a recipient or indirectly from a pass-through entity as a sub-recipient. Direct recipients are required to submit financial and single audit reports to the federal government through the Federal Audit Clearinghouse (FAC). Sub recipients with audit findings are required to forward a copy of the audit reports to the pass-through entity or provide a notification that the single audit was completed if there are no audit findings.

Every year, the City receives federal awards both as recipient and sub-recipient. Programs like Community Development Block Grants (CDBG), Shelter Plus Care,

HOME Investment Partnerships Program, Section 8 Housing Choice Vouchers Program and Federal Transit Capital and Formula Grants are examples of direct awards. The Summer Food Service Program for Children, Supportive Housing Program, and Lincoln Boulevard Resurfacing are examples of awards and funding that are passed through other agencies.

The City's independent auditor, MGO, performs audits and issues reports for both the Comprehensive Annual Financial Report (CAFR) and the Statement of Expenditures of Federal Awards (SEFA). The City's audit reports include:

- An opinion as to whether the CAFR and the SEFA are fairly presented
- A report on internal controls related to the financial statements and major programs
- A report on compliance with laws, regulations, and the provisions of contracts or grant agreements
- A schedule of findings and questioned costs

The audited SEFA report is required to be submitted to the FAC within nine months of fiscal year-end, which is March 31 for the City, and the City has met this reporting deadline. Additional reporting requirements include submitting the Single Audit Reports to the State Controller's Office and the Housing Financial Data Schedules to the Department of Housing and Urban Development.

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to its federal programs. MGO examines, on a test basis, the City's major federal programs to obtain reasonable assurance that the types of compliance requirements are met as per the OMB Circular A-133 Compliance Supplement and Government Auditing Standards. Based on the results of this testing, MGO issues an opinion as to the direct and material effect on each of the City's major federal programs for the fiscal year ended June 30, 2014. The City's major federal programs are identified in *Section I – Summary of Auditor's Results* in the accompanying Schedule of Findings and Questioned Costs.

Also noted in *Section I* is the type of report issued by MGO. The SEFA has once again received an unmodified or unqualified audit opinion. This is a clean opinion and the best type of audit report an auditee can receive. While the audit opinion is unmodified, the auditors are also required to disclose any audit findings, including noncompliance with grant requirements for a major program or reportable conditions regarding internal controls. There are no audit findings or questioned costs reported in the Single Audit Reports for the fiscal year ended June 30, 2014.

Audit findings from previous fiscal years are included in the report until the City can fully implement corrective action to eliminate such findings or provide a statement describing the reasons why corrective action is not necessary. Management has initiated numerous process improvements over the last few years to ensure compliance with federal funding rules and regulations and address outstanding single audit findings. Previous audit findings have noted that some federal expenditures incurred during the fiscal year were inadvertently omitted from the SEFA and some non-federal expenditures were incorrectly included on the SEFA. In response, management has revised the comprehensive list of grants to improve records management. Maintenance of this list guarantees that each of the City's federal grant expenditures are identified and accurately presented on the SEFA. Additionally, staff has utilized a new field in the financial system to flag all federal grant expenditures. Some of the procedural improvements are not in response to previous audit findings, but are preventative in nature. For example, each grant has been assigned to staff in the Finance Department for monitoring and review, and grants identified as challenging or previously non-compliant are scrutinized in greater detail. Many grant managers have added rigorous review processes for federal grants in response to a finding noting that required reports were not submitted in a timely manner in accordance with the federal grant agreement. Both grant managers and staff using federal funding throughout the City have attended compliance training sessions specifically designed for the federal grant process and Finance has provided individualized training on federal and other grant reporting

requirements to City staff on an as needed basis. The value of these improvements has already been realized in a Single Audits Report free of new findings.

Further process improvements are already in development. In response to the finding that documented policies and procedures are maintained in various documents and not in one comprehensive document, management is currently updating a Citywide Grants Policy that will clarify staff's roles and responsibilities and will provide resources and information on federal and other grant reporting requirements. Management has also developed and is in the process of filling a dedicated Senior Grants Analyst position in the Finance Department. Many of management's corrective action initiatives will be fully implemented by June 30, 2015. The final outstanding finding requires a risk assessment to be performed by the City contracted internal auditors Moss Adams, LLP and management estimates that this corrective action will be fully implemented by June 30, 2016.

Prepared by: Stephanie Manglaras, Accounting Manager

Attachment: Single Audit Reports and Housing Financial Data Schedules for the Fiscal Year Ended June 30, 2014

**CITY OF SANTA MONICA,
CALIFORNIA**

Single Audit Reports and
Housing Financial Data Schedules

For the Fiscal Year Ended June 30, 2014



Certified Public Accountants.

CITY OF SANTA MONICA, CALIFORNIA
Single Audit Reports and Housing Financial Data Schedules
For the Fiscal Year Ended June 30, 2014

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**Independent Auditor's 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***

Honorable Mayor and City Council
City of Santa Monica, 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 Santa Monica, California (City), as of and for the fiscal 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 February 27, 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.

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. 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.

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 tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Los Angeles, California
February 27, 2015

**Independent Auditor's Report on Compliance for
Each Major Program; Report on Internal Control over Compliance;
and Report on Schedule of Expenditures of Federal
Awards Required by OMB Circular A-133**

Honorable Mayor and City Council
City of Santa Monica, California

Report on Compliance for Each Major Federal Program

We have audited the City of Santa Monica, California's (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 fiscal 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.

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 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 fiscal year ended June 30, 2014.

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 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.

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.

Report on 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, as of and for the fiscal 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 February 27, 2015, which contained unmodified opinions 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. We have not performed any procedures with respect to the audited basic financial statements subsequent to February 27, 2015. The accompanying schedule of expenditures of federal awards is presented for 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.

Macias Gini & O'Connell LLP

Los Angeles, California

March 30, 2015, except for the schedule of expenditures of federal awards,
as to which the date is February 27, 2015

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**Independent Auditor's Report on
Housing Financial Data Schedules**

Honorable Mayor and City Council
City of Santa Monica, 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 Santa Monica, California (City), as of and for the fiscal year ended June 30, 2014, and related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated February 27, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We have not performed any procedures with respect to the audited basic financial statements subsequent to February 27, 2015.

The accompanying housing financial data schedules of the City are presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development and are 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 housing financial data schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

This report is intended solely for the information and use of the City's management, City Council, others within the entity, and the U.S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than those specified parties.

Macias Gini & O'Connell LLP

Los Angeles, California
March 30, 2015

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CITY OF SANTA MONICA, CALIFORNIA
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant Number/ Pass- Through Grantor's Number	Federal Expenditures	Subrecipients
<u>U.S. Department of Agriculture</u>				
<i>Passed through the California Department of Education:</i>				
Summer Food Service Program for Children	10.559	—	\$ 21,255	21,255
Total U.S. Department of Agriculture			21,255	21,255
<u>U.S. Department of Housing and Urban Development</u>				
<i>Direct Program:</i>				
<i>CDBG - Entitlement Grants Cluster:</i>				
Community Development Block Grants/Entitlement Grants	14.218	B-11-MC-06-0529	356,946	140,130
	14.218	B-12-MC-06-0529	770,559	63,707
	14.218	B-13-MC-06-0529	104,515	-
Subtotal CDBG - Entitlement Grants Cluster - CFDA No. 14.218			<u>1,232,020</u>	<u>203,837</u>
<i>Passed through the Los Angeles Homeless Services Authority:</i>				
Supportive Housing Program	14.235	CA0361L9D001205	417,627	-
	14.235	CA0361B9D000801	28,825	-
	14.235	CA0359L9D001205	304,108	14,300
	14.235	CA0359L9D001306	26,671	-
Subtotal CFDA No. 14.235			<u>777,231</u>	<u>14,300</u>
<i>Direct Program:</i>				
<i>Shelter Plus Care</i>				
	14.238	CA16-C70-0178	64,533	-
	14.238	CA0327C9D000800	303,654	-
	14.238	CA0415L9D001205	1,459,529	-
	14.238	CA1045L9D001202	240,803	-
	14.238	CA0415C9D001104	137,236	-
	14.238	CA1160L9D001201	166,542	-
	14.238	CA0360L9D001205	70,362	-
	14.238	CA0360L9D001306	7,021	-
	14.238	CA1045C9D001101	88,149	-
Subtotal CFDA No. 14.238			<u>2,537,829</u>	<u>-</u>
HOME Investment Partnerships Program	14.239	M-10-MC-06-0537	229,407	-
	14.239	M-12-MC-06-0537	91,138	-
	14.239	M-13-MC-06-0537	24,059	-
Subtotal CFDA No. 14.239			<u>344,604</u>	<u>-</u>
Community Challenge Planning Grant	14.704	CCPCA0002-10	12,583	-
<i>Housing Voucher Cluster:</i>				
Section 8 - Housing Choice Vouchers Program	14.871	CA111VO	14,244,165	-
Total U.S. Department of Housing and Urban Development			<u>19,148,432</u>	<u>218,137</u>
<u>U.S. Department of the Interior</u>				
<i>Direct Program:</i>				
<i>Water SMART (Sustaining and Manage America's Resources for Tomorrow) - System Optimization Review Grant</i>				
	15.507	R11AP35321	138,776	-
Total U.S. Department of the Interior			<u>138,776</u>	<u>-</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards and Housing Financial Data Schedules.

CITY OF SANTA MONICA, CALIFORNIA
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant Number/ Pass- Through Grantor's Number	Federal Expenditures	Subrecipients
<u>U.S. Department of Justice</u>				
<i>Direct Programs:</i>				
JAG Program Cluster				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010DJBX0334	\$ 6,768	-
	16.738	2012DJBX0809	34,058	-
Subtotal JAG Program Cluster - CFDA No. 16.738			<u>40,826</u>	<u>-</u>
Equitable Sharing Program - Asset Seizure	16.922	—	41,375	-
Total U.S. Department of Justice			<u>82,201</u>	<u>-</u>
<u>U.S. Department of Transportation</u>				
<i>Passed through the State of California Department of Transportation:</i>				
Highway Planning and Construction Cluster:				
California Incline Reconstruction	20.205	BRLS-5107 (002)	132,230	-
Pier Bridge (Widening) Improvements	20.205	BHLO-5107 (033)	148,707	-
Safe Routes to School Grant	20.205	SRTSLNI-5107(031)	57,945	-
School Based Bicycle Training Program	20.205	CML-5107(025)	47,614	-
Lincoln Boulevard Resurfacing	20.205	STPL-5107(034)	1,663,198	-
Bike Technology Demonstration	20.205	CML-5107(026)	4,278	-
Real Time Beach Parking Signs	20.205	CML-5107(028)	123,514	-
Subtotal Highway Planning and Construction Cluster - CFDA No. 20.205			<u>2,177,486</u>	<u>-</u>
<i>Direct Programs:</i>				
Federal Transit Cluster:				
Federal Transit Capital Investment Grants	20.500	CA-04-0163	7,189	-
	20.500	CA-04-0275	1,785,891	-
Federal Transit Formula Grants	20.507	CA-90-Y770-00	400,652	-
	20.507	CA-95-X206	2,418,607	-
	20.507	CA-90-Y667	151,439	-
	20.507	CA-90-Y118-01	706,696	-
	20.507	CA-90-Z102	11,238,294	-
ARRA - Federal Transit Formula Grants	20.507	CA-90-X044 (ARRA)	463,930	-
Subtotal Federal Transit Cluster - CFDA Nos. 20.500 and 20.507			<u>17,172,698</u>	<u>-</u>
<i>Passed through the Los Angeles County Metropolitan Transportation Authority:</i>				
New Freedom Program	20.521	CA-57-X084	19,001	-
<i>Passed through the State of California Office of Traffic Safety:</i>				
Highway Safety Cluster:				
State and Community Highway Safety:				
Selective Traffic Enforcement Program 2013-14	20.600	PT1445	66,859	-
Selective Traffic Enforcement Program 2012-13	20.600	PT1358	70,970	-
Subtotal Highway Safety Cluster - CFDA No. 20.600			<u>137,829</u>	<u>-</u>
<i>Minimum Penalties for Repeat Offenders for Driving While Intoxicated:</i>				
Sobriety Checkpoint Program 2013-14	20.608	SC14392	9,740	-
Sobriety Checkpoint Program 2012-13	20.608	SC13392	32,730	-
Subtotal CFDA No. 20.608			<u>42,470</u>	<u>-</u>
Total U.S. Department of Transportation			<u>19,549,484</u>	<u>-</u>
<u>U.S. Department of Treasury</u>				
<i>Direct Program:</i>				
Treasury Asset Forfeiture Program	21.000	—	16,842	-
Total U.S. Department of Treasury			<u>16,842</u>	<u>-</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards and Housing Financial Data Schedules.

CITY OF SANTA MONICA, CALIFORNIA
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant Number/ Pass- Through Grantor's Number	Federal Expenditures	Subrecipients
<u>National Endowment for the Arts</u>				
<i>Passed through Arts Midwest:</i>				
Promotion of the Arts - Grants to Organizations and Individuals - The Big Read	45.024	190132	\$ 15,950	-
Total National Endowment for the Arts			<u>15,950</u>	<u>-</u>
<u>Institute of Museum and Library Services</u>				
<i>Passed through the Southern California Library Cooperative:</i>				
Grants to States - Book to Action	45.310	—	273	-
Total Institute of Museum and Library Services			<u>273</u>	<u>-</u>
<u>U.S. Department of Homeland Security</u>				
<i>Passed through the State of California Emergency Management Agency:</i>				
Disaster Grants - Public Assistance (Presidentially Declared Disasters) -				
1994 Earthquake Disaster Assistance	97.036	FEMA-1008-DR	121	-
2012 Pre Disaster Mitigation Competitive Grant	97.047	2012-0004-PDMC12-PL41	18,750	-
Rail and Transit Security Grant Program	97.075	2008-RL-T8-K0018	19,650	-
<i>Passed through the County of Los Angeles - Office of Emergency Management:</i>				
2013 Emergency Management Performance Grant	97.042	2013-0047	12,792	-
Homeland Security Grant Program (UASI 2013 - FIRE)	97.067	C-124029	690	-
Homeland Security Grant Program (UASI 2012 - POLICE)	97.067	C-123529	21,917	-
Homeland Security Grant Program (UASI 2012 - FIRE)	97.067	C-123529	428,860	-
Homeland Security Grant Program (UASI 2011 - POLICE)	97.067	C-121050	110,503	-
Homeland Security Grant Program (UASI 2011 - FIRE)	97.067	C-121050	95,483	-
Subtotal CFDA No. 97.067			<u>657,453</u>	<u>-</u>
Total U.S. Department of Homeland Security			<u>708,766</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 39,681,979</u>	<u>\$ 239,392</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards and Housing Financial Data Schedules.

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CITY OF SANTA MONICA, CALIFORNIA
Housing Financial Data Schedules
June 30, 2014

Line Item No.	Description	Housing Choice Vouchers	Shelter Plus Care	Supportive Housing Program	Total Programs
	Balance Sheet				
113	Cash - Other Restricted	\$ 517,848	\$ -	\$ -	\$ 517,848
115	Cash - Restricted for Payment of Current Liabilities	64,985	-	-	64,985
100	Total Cash	582,833	-	-	582,833
121	Accounts Receivable - PHA Projects	8,121	-	-	8,121
122	Accounts Receivable - HUD Other Projects	-	254,580	52,807	307,387
120	Total Receivables, Net of Allowances for Doubtful Accounts	8,121	254,580	52,807	315,508
132	Investments - Restricted	96,950	-	-	96,950
142	Prepaid Expenses and Other Assets	13,791	-	-	13,791
150	Total Current Assets	701,695	254,580	52,807	1,009,082
200	Deferred Outflow of Resources	-	-	-	-
290	Total Assets and Deferred Outflow of Resources	\$ 701,695	\$ 254,580	\$ 52,807	\$ 1,009,082
312	Accounts Payable <= 90 Days	\$ 9,521	\$ -	\$ -	\$ 9,521
333	Accounts Payable - Other Government	-	254,580	52,807	307,387
345	Other Current Liabilities	64,985	-	-	64,985
346	Accrued Liabilities - Other	56,187	-	-	56,187
310	Total Current Liabilities	130,693	254,580	52,807	438,080
353	Non-current Liabilities - Other	96,950	-	-	96,950
350	Total Non-Current Liabilities	96,950	-	-	96,950
300	Total Liabilities	227,643	254,580	52,807	535,030
400	Deferred Inflow of Resources	-	-	-	-
509.3	Restricted Fund Balance	492,974	-	-	492,974
512.3	Unassigned Fund Balance	(18,922)	-	-	(18,922)
513	Total Equity - Net Assets/ Position	474,052	-	-	474,052
600	Total Liabilities, Deferred Inflows of Resources and Equity	\$ 701,695	\$ 254,580	\$ 52,807	\$ 1,009,082

See Accompanying Notes to Schedule of Expenditures of Federal Awards and Housing Financial Data Schedules.

CITY OF SANTA MONICA, CALIFORNIA
Housing Financial Data Schedules (Continued)
For the Fiscal Year Ended June 30, 2014

Line Item No.	Description	Housing Choice Vouchers	Shelter Plus Care	Supportive Housing Program	Total
Program Revenues and Expenses Summary					
70600	HUD PHA Operating Grants	\$ 12,713,262	\$ 2,537,829	\$ 330,779	\$ 15,581,870
71400	Fraud Recovery	61,767	-	-	61,767
71500	Other Revenue	506,278	-	-	506,278
72000	Investment Income - Restricted	7,934	-	-	7,934
70000	Total Revenue	13,289,241	2,537,829	330,779	16,157,849
91100	Administrative Salaries	830,296	184,142	23,891	1,038,329
91200	Auditing Fees	6,511	-	-	6,511
91400	Advertising and Marketing	141	-	-	141
91500	Employee Benefit contributions - Administrative	434,565	-	-	434,565
91600	Office Expenses	26,109	-	-	26,109
91700	Legal Expense	7,745	-	-	7,745
91800	Travel	2,103	-	-	2,103
91900	Other	162,750	-	-	162,750
91000	Total Operating - Administrative	1,470,220	184,142	23,891	1,678,253
92100	Tenant Services - Salaries	63,021	-	-	63,021
92500	Total Tenant Services	63,021	-	-	63,021
96200	Other General Expenses	8,111	-	-	8,111
96000	Total Other General Expenses	8,111	-	-	8,111
96900	Total Operating Expenses	1,541,352	184,142	23,891	1,749,385
97000	Excess of Operating Revenue over Operating Expenses	11,747,889	2,353,687	306,888	14,408,464
97300	Housing Assistance Payments	12,220,204	2,353,687	306,888	14,880,779
97350	HAP Portability-In	480,468	-	-	480,468
90000	Total Expenses	14,242,024	2,537,829	330,779	17,110,632
10030	Operating Transfers from/to Primary Government	530,136	-	-	530,136
10100	Total Other financing Sources (Uses)	530,136	-	-	530,136
10000	Excess (Deficiency) of Total Revenue Over (Under) Total	(422,647)	-	-	(422,647)
11030	Beginning Equity	917,760	-	-	917,760
11040	Prior Period Adjustments, Equity Transfers and Correction	(21,061)	-	-	(21,061)
11170	Administrative Fee Equity	(18,922)	-	-	(18,922)
11180	Housing Assistance Payments Equity	\$ 492,974	\$ -	\$ -	\$ 492,974
11190	Unit Months Available	13104	2496	360	15960
11210	Number of Unit Months Leased	11856	2442	342	14640

See Accompanying Notes to Schedule of Expenditures of Federal Awards and Housing Financial Data Schedules.

CITY OF SANTA MONICA, CALIFORNIA
Notes to Schedule of Expenditures of Federal Awards
and Housing Financial Data Schedules
For the Fiscal Year Ended June 30, 2014

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents only the expenditures incurred by the City of Santa Monica (City) that are reimbursable under federal award programs. Federal awards received directly from federal agencies, as well as federal awards passed through other nonfederal agencies, are included on the Schedule. The City's reporting entity is reported in Note 1 to the City's basic financial statements. Expenditures funded by the American Recovery and Reinvestment Act of 2009 are denoted by the prefix "ARRA" in the federal program title.

2. BASIS OF ACCOUNTING

The accompanying Schedule is presented using the modified accrual basis of accounting except for programs recorded in the City's enterprise funds, which are presented using the accrual basis of accounting.

3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal award expenditures agree or can be reconciled with the amounts reported in the City's basic financial statements.

4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying Schedule are in agreement with the amounts reported in the related federal financial reports for the federal award programs.

**5. UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD),
REAL ESTATE ASSESSMENT CENTER**

The Housing Financial Data Schedules are required schedules that public housing agencies are to provide to HUD. They are essentially a trial balance of the City's Section 8 Housing Choice Vouchers-Housing Voucher Cluster Program (CFDA 14.871) and Shelter Plus Care Program (CFDA 14.238) reported in the City's Housing Authority special revenue fund in its basic financial statements, arranged in a program format as prescribed by HUD. The account descriptions in the schedules are not consistent with the terminology prescribed by generally accepted accounting principles for special revenue funds; rather, the descriptions include a blend of descriptions for proprietary funds (accrual based financial statements) and governmental funds (modified accrual based financial statements.) The Housing Financial Data Schedules are reported using the modified accrual basis of accounting.

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CITY OF SANTA MONICA, CALIFORNIA
 Schedule of Findings and Questioned Costs
 For the Fiscal Year Ended June 30, 2014

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None noted

Noncompliance material to the financial statements noted? No

FEDERAL AWARDS

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None noted

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.205	Highway Planning and Construction
20.500 and 20.507	Federal Transit Cluster
14.238	Shelter Plus Care

Dollar threshold used to distinguish between type A and type B programs: \$1,190,460

Auditee qualified as a low-risk auditee? Yes

CITY OF SANTA MONICA, CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2014

Section II – Financial Statement Findings

None noted.

Section III – Federal Award Findings and Questioned Costs

None noted

CITY OF SANTA MONICA, CALIFORNIA

Summary Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2014

Financial Statement Findings:

Finding 2013-001: Financial Reporting - Schedule of Expenditure of Federal Awards

Finding:

During our audit, we noted the following errors over the preparation of the Schedule of Expenditures of Federal Awards (SEFA):

- Certain federal expenditures incurred during the fiscal year were inadvertently omitted from the SEFA for the following federal programs: Homeland Security Grant Program (97.067), Community Development Block Grants/ Entitlements Grants Cluster (14.218), HOME Investment Partnerships Program (14.239), Federal Transit Formula and Traffic Signal Priority Grants (20.507). This resulted in a net understatement of \$539,536 on the preliminary SEFA.
- Non-federal expenditures were incorrectly included on the SEFA for the Supportive Housing Program (14.235), resulting in an overstatement of \$49,491 on the preliminary SEFA.
- Duplicate retention amounts were inaccurately reported on the SEFA for the Traffic Signal Priority Grant (20.507), resulting in an overstatement of \$88,858 on the preliminary SEFA.

Recommendation:

We recommend that management strengthen their policies and procedures to ensure that federal expenditures reported on the SEFA are complete and accurate. Furthermore, we recommend that the Finance department strengthen the communication with departments to ensure federal expenditures are accurately reported.

Current Year Management Response:

Management agrees with the recommendation. Management has implemented procedural changes to ensure that preliminary drafts of the SEFA contain a comprehensive list of federal grant expenditures. This includes, but is not limited to, staff training on federal grant reporting requirements and improving grant records management. Staff is currently updating the City's draft Grants Policy and estimates that a final version will be made available to staff Citywide by June 30, 2015. A dedicated Senior Grants Analyst position was created in FY 2014-15 and should be filled by June 30, 2015.

Current Status as of June 30, 2014:

Partially implemented

Implementation Date:

June 30, 2015

Finding 2012-01- Financial Reporting - SEFA

Finding:

Management inaccurately reported cost-sharing amounts, inadvertently omitted certain federal expenditures incurred during the fiscal year and inadvertently omitted a grant award from the initial Schedule of Expenditures of Federal Awards (SEFA). These exceptions were subsequently corrected by management on the fiscal year 2012 SEFA.

CITY OF SANTA MONICA, CALIFORNIA
Summary Schedule of Prior Audit Findings (Continued)
For the Fiscal Year Ended June 30, 2014

Recommendation:

We recommend that management strengthen their policies and procedures to ensure that federal expenditures reported on the SEFA are accurate and in accordance with the requirements of OMB Circular A-133.

Current Year Management Response:

Management agrees with the recommendation. Management has implemented procedural changes to ensure that preliminary drafts of the SEFA contain a comprehensive list of federal grant expenditures. This includes, but is not limited to, staff training on federal grant reporting requirements and improving grant records management. Staff is currently updating the City's draft Grants Policy and estimates that a final version will be made available to staff Citywide by June 30, 2015. A dedicated Senior Grants Analyst position was created in FY 2014-15 and should be filled by June 30, 2015.

Current Status as of June 30, 2014:

Partially implemented.

Implementation Date:

June 30, 2015

Finding 2011-01 – Risk Assessment Performance by the Internal Audit and Finance Departments

Finding:

The Internal Audit and Finance departments do not perform a formalized risk assessment that identifies the financial risks within the City. The lack of a formalized risk assessment could lead to risks not being identified or adequately addressed.

Recommendation:

A documented risk assessment should be prepared and updated annually in order to identify risk areas in financial reporting and fiscal controls over operations. The risk assessment should be compared with existing controls to evaluate their adequacy and monitoring to determine that they are functioning as designed.

Current Year Management Response:

On August 26, 2014, Council authorized the City Manager to negotiate and execute a professional services agreement with Moss Adams, LLP for internal audit services. In FY 2014-15, Moss Adams completed an internal controls review of the City's key financial processes, including key functions and over 100 controls. This report was presented to Council in March 2015. Per Council's direction, Moss Adams will create a work plan that targets the most impactful findings of the internal controls review and that includes a Citywide risk assessment.

Current Status as of June 30, 2014:

Partially implemented.

Implementation Date:

June 30, 2016

CITY OF SANTA MONICA, CALIFORNIA
Summary Schedule of Prior Audit Findings (Continued)
For the Fiscal Year Ended June 30, 2014

Finding 2011-02 – Accounting Policies and Procedures Manual

Finding:

We noted that the Finance Department has documented policies and procedures that are maintained in various documents and not in one comprehensive document. Procedures exist in the JD Edwards (JDE) manual, which provides guidance on their financial system and their annual budget document contains policies that are prepared for City Council approval. The lack of comprehensive written policies and procedures could contribute to inconsistent accounting treatment and poor internal controls.

Recommendation:

We recommend that a comprehensive accounting manual be maintained and updated and distributed to all finance department employees.

Current Year Management Response:

Management agrees with the recommendation and staff is in the process of drafting policies and procedures that will be framed into a single manual. While some procedures will require modifications in accordance with upcoming internal audit recommendations, management anticipates completion of the overall framework by June 30, 2015.

Current Status as of June 30, 2014:

Partially implemented.

Implementation Date:

June 30, 2015

Federal Award Findings

**Finding 2013-002 Allowable Costs/ Cost Principles and Reporting
CFDA No. 20.507 – Federal Transit Cluster**

Condition:

During our audit, we noted the following exceptions:

- Retention amounts paid to contractors totaling \$88,858 were reported twice on the Quarterly Progress report for the Transit Priority Grant. Of this retention amount, \$86,730 was inadvertently drawn down twice, and the estimated interest earned was \$36, resulting in questioned costs in the amount of \$86,766.
- Management reported annual expenditures totaling \$12,239,294 on the 3rd quarter 1512 - ARRA report and cumulative expenditures totaling \$12,245,969 on the Federal Financial Report, for the same period, resulting in a variance of \$6,675. The variance is generally a result of timing differences, which management corrects on the subsequent report. However, we noted that the variance was not corrected on the 4th quarter 1512 - ARRA report for the fiscal year ended June 30, 2013.

Recommendation:

We recommend that management strengthen their policies and procedures to ensure that federal fund drawdowns, federal expenditures reported on quarterly progress reports and the SEFA, as well as other required reports are complete and accurate.

CITY OF SANTA MONICA, CALIFORNIA
Summary Schedule of Prior Audit Findings (Continued)
For the Fiscal Year Ended June 30, 2014

Management Response and Corrective Action:

Management agrees with the recommendation. Management will update procedures and develop forms that will assist in the preparation and review of grant reports and will improve the communications and coordination with grant managers and departments throughout the City. We anticipate completion of this corrective action by June 30, 2015.

Current Year Management Response:

Management agrees with the recommendation. Management has implemented procedural changes which include, but are not limited to, staff training on federal grant reporting requirements and improving grant records management. Staff is currently updating the City's draft Grants Policy and estimates that a final version will be made available to staff Citywide by June 30, 2015. A dedicated Senior Grants Analyst position was created in FY 2014-15 and should be filled by June 30, 2015.

Current Status as of June 30, 2014:

Partially implemented.

Implementation Date:

June 30, 2015

Finding 2013-003 Reporting

CFDA No. 81.128 - ARRA - Energy Efficiency and Conservation Block Grant Program

Condition:

During our audit, we selected a sample of two quarterly performance reports and two quarterly financial reports. We noted that all four reports selected for testing were submitted to the National Energy Technology Laboratory (NETL) after the due dates.

Recommendation:

We recommend that management strengthen their policies and procedures to ensure that required reports are submitted in a timely manner in accordance with the federal grant agreement.

Management Response and Corrective Action:

Management agrees with the recommendation. In addition to the creation and anticipated final approval of the City's policy on grant awards, Office of Sustainability and the Environment (OSE) will integrate federal grant reporting schedules into the existing contract management system to ensure that OSE management and all staff are aware of all impending grant report due dates and the submission status of all federal grant reports. We anticipate completion of this corrective action by June 30, 2015.

Current Year Management Response:

Management has implemented procedural changes which include, but are not limited to, staff training on federal grant reporting requirements, improving grant records management, and reallocating and clarifying grant reporting responsibilities. Staff is currently updating the City's draft Grants Policy and estimates that a final version will be made available to staff Citywide by June 30, 2015. A dedicated Senior Grants Analyst position was created in FY 2014-15 and should be filled by June 30, 2015.

Current Status as of June 30, 2014:

Partially implemented.

CITY OF SANTA MONICA, CALIFORNIA
Summary Schedule of Prior Audit Findings (Continued)
For the Fiscal Year Ended June 30, 2014

Implementation Date:

June 30, 2015

Finding 2012-02 Reporting

CFDA No. 81.128 – ARRA - Energy Efficiency and Conservation Block Grant

Condition:

The City did not submit the required Federal Financial Report and PAGE report for the quarter ended June 30, 2012 by the due date of July 30, 2012. The reports were submitted on August 6, 2012.

Recommendation:

We recommend that management strengthen their policies and procedures to ensure federal financial and performance reports are submitted to the granting agency in a timely manner.

Management Response and Corrective Action:

Management agrees with the recommendation and has strengthened its policies and procedures to ensure that federal financial performance reports are submitted to the granting agency by the due date.

Current Year Management Response:

Management has implemented procedural changes which include, but are not limited to, staff training on federal grant reporting requirements, improving grant records management, and reallocating and clarifying grant reporting responsibilities. Staff is currently updating the City's draft Grants Policy and estimates that a final version will be made available to staff Citywide by June 30, 2015. A dedicated Senior Grants Analyst position was created in FY 2014-15 and should be filled by June 30, 2015.

Current Status as of June 30, 2014:

Partially implemented.

Implementation Date:

June 30, 2015