

**CITY OF PALMDALE,
CALIFORNIA**

**SINGLE AUDIT REPORT
(UNIFORM GUIDANCE)**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2016**

CITY OF PALMDALE, CALIFORNIA

**SINGLE AUDIT REPORT
(UNIFORM GUIDANCE)**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

The Honorable City Council of
The City of Palmdale
City of Palmdale, 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, each major fund, and the aggregate remaining fund information of the City of Palmdale, California (City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 23, 2016. Our report contained an emphasis of matter regarding the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective, July 1, 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 the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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.

Vavrinik, Trine, Day & Co. LLP

Rancho Cucamonga, California
November 23, 2016



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

The Honorable City Council of
The City of Palmdale
City of Palmdale, California

Report on Compliance for Major Federal Program

We have audited the City of Palmdale, California's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2016. The City's major federal program is identified in the summary of auditors' 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 of the City's major federal program 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; the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Major Federal Program

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of 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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated November 23, 2016, which contained unmodified opinions on those financial statements. Our report included an emphasis of matter paragraph regarding the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective, July 1, 2015. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Vavrinik, Trine, Day & Co. LLP

Rancho Cucamonga, California
March 21, 2017

CITY OF PALMDALE, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/ProgramTitle/Cluster	Federal CFDA Number	Federal Agency / Pass-Through Entity Identifying Number	Federal Program Expenditures	Passed Through to Subrecipients
<u>U.S. Department of Housing and Urban Development:</u>				
Direct Programs:				
Community Development Block Grant - Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants - Administration	14.218	B15MC060581	\$ 77,658	
Community Development Block Grants/Entitlement Grants - Fair Housing Council	14.218	B15MC060581	27,444	\$ 27,444
Community Development Block Grants/Entitlement Grants - Section 108 Loan Principal Payment	14.218	B15MC060581	244,000	
Community Development Block Grants/Entitlement Grants - Section 108 Loan Interest Payment	14.218	B15MC060581	171,258	
Community Development Block Grants/Entitlement Grants - SAVES Administration	14.218	B15MC060581	202,882	
Community Development Block Grants/Entitlement Grants - ADA Compliance	14.218	B8/14/15MC060581	438,618	
Community Development Block Grants/Entitlement Grants - ADA Improvements - Curbs & Sidewalks	14.218	B8/14/15MC060581	515,208	
Community Development Block Grants/Entitlement Grants - SAVES Courson Warehouse	14.218	B14MC060581	1,661	
Community Development Block Grants/Entitlement Grants - Courson Connection Infrastructure	14.218	B12-14MC060581	619	
Community Development Block Grants/Entitlement Grants - Cameras & Lights - Parks	14.218	B14/15MC060581	610,890	
Community Development Block Grants/Entitlement Grants - Neighborhood Stabilization Prog - Administration	14.218	B08MN060515	61,383	
Community Development Block Grants/Entitlement Grants - Neighborhood Stabilization Prog - Capital	14.218	B08MN060515	322,953	
Community Development Block Grants/Entitlement Grants - Neighborhood Stabilization Prog - Forgive / Loss	14.218	B08MN060515	363,701	
Total Community Development Block Grant - Entitlement Grants Cluster			3,038,275	27,444
HOME Investment Partnerships Program:				
HOME Investment Partnerships Program - Administration	14.239	M-10/11-MC-06-0562	30,523	
HOME Investment Partnerships Program - Courson - AMCAL 78 Unit - Loans	14.239	M-05/08-MC-06-0562	1,000,000	
HOME Investment Partnerships Program - Transit Village Infrastructure - Loans	14.239	M-05/09-MC-06-0562	1,275,000	
HOME Investment Partnerships Program - Sr Housing SCHDC - PSHP 80 Unit - Loans	14.239	M-05/08-MC-06-0562	750,000	
HOME Investment Partnerships Program - Transitional Housing Paving the Way - Loans	14.239	M-10/11-MC-06-0562	157,916	
HOME Investment Partnerships Program - MF Rental - New Construction	14.239	M12/13-MC-06-0562	283,933	280,490
HOME Investment Partnerships Program - MF Rental - New Construction (Duplex)	14.239	M12/13-MC-06-0562	16,448	
HOME Investment Partnerships Program - MF Residential Acq & Rehab (10th Place)	14.239	M12/13-MC-06-0562	10,436	
HOME Investment Partnerships Program - HOME Down Payment/Assistance Prog - Loans	14.239	M-08/10-MC-06-0562	82,165	
HOME Investment Partnerships Program - HOME - TBRA Program	14.239	M-14-MC-06-0562	26	
Passed-through the California Department of Housing and Community Development:				
HOME Investment Partnerships Program - CSP-Courson (HCD HOME)-Loan Receivable Balance	14.239	04-HOME-0662	2,850,000	
Total HOME Investment Partnerships Program			6,456,447	280,490
Total U.S. Department of Housing and Urban Development			9,494,722	307,934
<u>U.S. Department of Justice:</u>				
Passed-through the City of Los Angeles:				
Edward Byrne Memorial Justice Assistance Grant Porogram - 2014	16.738	2015-DJ-BX-0948	58,047	
Total U.S. Department of Justice			58,047	
<u>U.S. Department of Labor:</u>				
Passed-through the County of Los Angeles:				
Workforce Investment Act (WIA) / Workforce Innovation and Opportunity Act (WIOA) Cluster:				
Workforce Investment Act - Adult	17.258	A091003	402,807	382,285
Workforce Investment Act - Adult Veterans Program	17.258	A091003	534,133	519,331
Total Workforce Investment Act - Adult			936,940	901,616
Workforce Investment Act - Dislocated Worker	17.278	DW091003	222,041	204,898
Workforce Investment Act - Dislocated Worker Veteran Program	17.278	DW091003	266,238	255,185
Total Workforce Investment Act - Dislocated Worker			488,279	460,083
Total WIA / WIOA Cluster			1,425,219	1,361,699
Total U.S. Department of Labor			1,425,219	1,361,699

See accompanying notes to schedule of expenditures of federal awards.

CITY OF PALMDALE, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (Continued)

Federal Grantor/Pass-Through Grantor/ProgramTitle/Cluster	Federal CFDA Number	Federal Agency / Pass-Through Entity Identifying Number	Federal Program Expenditures	Passed Through to Subrecipients
<u>U.S. Department of Transportation</u>				
Passed-through the State of California Department of Transportation:				
Highway Planning and Construction Cluster:				
Highway Planning and Construction - HSR Station Planning	20.205	HSR14-50	253,653	
Highway Planning and Construction - HSIP Ave R 10th St E	20.205	HSIPL-5378(024)	254,165	
Highway Planning and Construction - Street Resurfacing	20.205	STPL-5378(034)	16,147	
Highway Planning and Construction - Pearblossom Reconstruction	20.205	STPL-5378(041)	55,991	
Highway Planning and Construction - Cycle 5 HSIP Ave R & 55th St	20.205	HSIPL-5378(033)	393,180	
Highway Planning and Construction - HSIP Trade Ctr & Technology Drive	20.205	HSIPL-5378(036)	31,230	
Highway Planning and Construction - HSIP Ave S & 30th E Traffic	20.205	HSIPL-5378(037)	24,930	
Highway Planning and Construction - 15th/ SR138 Intersection Impr	20.205	DEM95L-5378(035)	105,850	
Total Highway Planning and Construction Cluster			1,135,146	
Total U.S. Department of Transportation			1,135,146	
<u>U.S. Department of Homeland Security:</u>				
Passed-Through United Way-EFSP:				
Emergency Food and Shelter National Board Program:				
Emergency Food and Shelter National Board Program - SAVES - Food	97.024	26-0695-00	19,163	
Emergency Food and Shelter National Board Program - SAVES - Shelter	97.024	26-0695-00	4,142	
Total Emergency Food and Shelter National Board Program			23,305	
Total U.S. Department of Homeland Security			23,305	
Total Expenditures of Federal Awards			\$ 12,136,439	\$ 1,669,633

See accompanying notes to schedule of expenditures of federal awards.

CITY OF PALMDALE, CALIFORNIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of the City of Palmdale, California (City) under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position or changes in net position of the City.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles continued in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown in the SEFA represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 – INDIRECT COST RATE

The City has elected to not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

CITY OF PALMDALE, CALIFORNIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 4 – OUTSTANDING LOANS OF FEDERAL FUNDS

The following schedule presents the amount of outstanding loans receivable by CFDA number. All loans with continuing compliance requirements are included on the accompanying Schedule of Expenditures of Federal Awards. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented on the Schedule. The balance of loans outstanding at June 30, 2016, consist of:

CFDA No.	Federal Program	Outstanding Loans at June 30, 2016
14.239	HOME Investment Partnerships Program	\$ 2,850,000
14.239	HOME Investment Partnerships Program	1,000,000
14.239	HOME Investment Partnerships Program	750,000
14.239	HOME Investment Partnerships Program	1,275,000
14.239	HOME Investment Partnerships Program	82,165
14.239	HOME Investment Partnerships Program	310,817
14.239	HOME Investment Partnerships Program	157,916
		<u>\$ 6,425,898</u>

CITY OF PALMDALE, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

I. SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of report issued on whether the financial statements audited were prepared in accordance with GAAP:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major federal programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None reported</u>
Type of auditors' report issued on compliance for major federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<u>No</u>

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Names of Federal Program or Cluster</u>
<u>14.218</u>	<u>Community Development Block Grant/Entitlement Grants Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

CITY OF PALMDALE, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

II. FINANCIAL STATEMENT FINDINGS

None reported.

CITY OF PALMDALE, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

CITY OF PALMDALE, CALIFORNIA

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Finding No.	Program Name	CFDA No.	Compliance Requirement	Status of Corrective Action
2015-001	Highway Planning & Construction Cluster	20.205	Procurement and Suspension and Debarment	Implemented
2015-002	Community Development Block Grant/Entitlement Grants Cluster	14.218	Procurement and Suspension and Debarment	Implemented