

**CITY OF PALMDALE,
CALIFORNIA**

**SINGLE AUDIT REPORT
(UNIFORM GUIDANCE)**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2018**

CITY OF PALMDALE, CALIFORNIA

**SINGLE AUDIT REPORT
(UNIFORM GUIDANCE)**

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

TABLE OF CONTENTS

	PAGE
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 <i>Government Auditing Standards</i>	1
Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	3
Schedule of Expenditures of Federal Awards	6
Notes to Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs	
I. Summary of Auditors' Results	10
II. Schedule of Financial Statement Findings	11
III. Schedule of Federal Award Findings and Questioned Costs	12
Summary Schedule of Prior Audit Findings	13



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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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 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, 2018, 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 16, 2018. Our report contained an emphasis of matter regarding the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 75, *Financial Reporting for Postemployment Benefit Other Than Pensions*, effective July 1, 2017.

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 16, 2018



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON 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 Each 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 each of the City's major federal programs for the year ended June 30, 2018. The City's major federal programs are 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 federal statutes, regulations, and the terms and conditions of its federal awards 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; 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 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 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, 2018.

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 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. 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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated November 16, 2018, which contained unmodified opinions on those financial statements. Our report contained an emphasis of matter regarding the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 75, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, effective July 1, 2017. 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 1, 2019

CITY OF PALMDALE, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title/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	B17MC060581	\$ 82,183	
Community Development Block Grants/Entitlement Grants - Fair Housing Council	14.218	B17MC060581	30,261	
Community Development Block Grants/Entitlement Grants - Section 108 Loan Principal Payment	14.218	B17MC060581	268,000	
Community Development Block Grants/Entitlement Grants - Section 108 Loan Interest Payment	14.218	B17MC060581	147,866	
Community Development Block Grants/Entitlement Grants - Courson Arts Colony West	14.218	B16MC060581	278,762	
Community Development Block Grants/Entitlement Grants - SAVES Administration	14.218	B17MC060581	217,670	
Community Development Block Grants/Entitlement Grants - ADA Compliance	14.218	B14MC060581	1,869	
Community Development Block Grants/Entitlement Grants - SAVES Courson Warehouse	14.218	B14MC060581	8,679	
Community Development Block Grants/Entitlement Grants - Courson Connection Infrastructure	14.218	B14/15MC060581	575	
Community Development Block Grants/Entitlement Grants - Neighborhood Stabilization Prog - Administration	14.218	B08MN060515	66,689	
Community Development Block Grants/Entitlement Grants - Neighborhood Stabilization Prog - Capital	14.218	B08MN060515	209,276	
Community Development Block Grants/Entitlement Grants - Neighborhood Stabilization Prog - Forgive / Loss	14.218	B08MN060515	183,996	
Total Community Development Block Grant - Entitlement Grants Cluster			1,495,826	-
HOME Investment Partnerships Program:				
HOME Investment Partnerships Program - Administration	14.239	M-17-MC-06-0562	47,011	
HOME Investment Partnerships Program - HOME - TBRA Program	14.239	M-15/16/17-MC-06-0562	157,858	157,858
HOME Investment Partnerships Program - MF Rental - New Construction Youthbuild (Duplex)	14.239	M14/16-MC-06-0562	(50,932)	
HOME Investment Partnerships Program - CHDO Multifamily Rehab	14.239	M15/16-MC-06-0563	79	
HOME Investment Partnerships Program - MF Residential Acq & Rehab (10th Place)	14.239	M12/13-MC-06-0562	5,810	
HOME Investment Partnerships Program - Transit Village Infrastructure - Loans	14.239	M-05/10-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 - Courson - AMCAL 78 Unit - Loans	14.239	M-05/07-MC-06-0562	1,000,000	
HOME Investment Partnerships Program - Transitional Housing Paving the Way - Loans	14.239	M-10/14-MC-06-0562	157,916	
HOME Investment Partnerships Program - MF Rental - New Construction (Duplex) - Loans	14.239	M10/11-MC-06-0562	337,551	
HOME Investment Partnerships Program - MF Rental - New Construction (Duplex) - New Loans	14.239	M10/11-MC-06-0562	102,449	
HOME Investment Partnerships Program - MF Rental - Acquisition and Rehab - New Loans	14.239	M10/11-MC-06-0562	103,139	
HOME Investment Partnerships Program - HOME Down Payment/Assistance Prog - Loans	14.239	M-08/10-MC-06-0562	82,165	
HOME Investment Partnerships Program - Courson Art Colony East - Loans	14.239	M-13/16-MC-06-0562	432,000	
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			7,250,046	157,858
Total U.S. Department of Housing and Urban Development			8,745,872	157,858
<u>U.S. Department of Justice:</u>				
Passed-through the City of Los Angeles:				
Edward Byrne Memorial Justice Assistance Grant Program - 2014	16.738	2016-DJ-BX-0948	66,370	
Total U.S. Department of Justice			66,370	
<u>U.S. Department of Labor:</u>				
Passed-through the County of Los Angeles:				
Workforce Innovation and Opportunity Act (WIOA) Cluster:				
WIA/WIOA - Adult Program	17.258	A091003	187,467	187,467
WIA/WIOA - Adult Program - Veterans	17.258	A091003	147,204	147,204
Total WIA/WIOA - Adult Program			334,671	334,671
WIA/WIOA Dislocated Worker Formula Grants				
WIA/WIOA Dislocated Worker Formula Grants - Veterans	17.278	DW091003	95,673	95,673
WIA/WIOA Dislocated Worker Formula Grants - Veterans	17.278	DW091003	76,647	76,647
Total WIA/WIOA Dislocated Worker Formula Grants			172,320	172,320
Total WIOA Cluster			506,991	506,991
Total U.S. Department of Labor			506,991	506,991

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, 2018 (Continued)

Federal Grantor/Pass-Through Grantor/Program Title/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	(56,130)	
Highway Planning and Construction - HSIP Ave R 10th St E	20.205	HSIPL-5378(028)	9,500	
Highway Planning and Construction - Street Resurfacing	20.205	STPL-5378(034)	1,434,838	
Highway Planning and Construction - Pearblossom Reconstruction	20.205	STPL-5378(041)	42,987	
Highway Planning and Construction - Cycle 5 HSIP Ave R & 55th St	20.205	STPL-5378(038)	393,675	
Highway Planning and Construction - ATP Civic Ctr Complete Streets	20.205	STPL-5378(046)	2,642	
Highway Planning and Construction - HSIP Trade Ctr & Technology Drive	20.205	HSIPL-5378(042)	(14,952)	
Highway Planning and Construction - Upgrade Non-Signalized Crosswalks	20.205	HSIPL-5378(043)	11,500	
Highway Planning and Construction - SB-40th St Roundabout	20.205	HSIPL-5378(044)	139,064	
Highway Planning and Construction - Guardrails and End Treatments	20.205	HSIPL-5378(045)	25,861	
Highway Planning and Construction - 15th/ SR138 Intersection Impr	20.205	DEM95L-5378(035)	3,762	
Total Highway Planning and Construction Cluster			1,992,747	
Total U.S. Department of Transportation			1,992,747	
<u>U.S. Department of Homeland Security:</u>				
Passed-Through United Way-EFSP:				
Emergency Food and Shelter National Board Program - SAVES - Food	97.024	26-0695-00	16,011	
Emergency Food and Shelter National Board Program - SAVES - Shelter	97.024	26-0695-00	7,046	
Total Emergency Food and Shelter National Board Program			23,057	
Total U.S. Department of Homeland Security			23,057	
Total Expenditures of Federal Awards			\$ 11,335,037	\$ 664,849

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, 2018

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, 2018. 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, 2018

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. 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, 2018, consist of:

CFDA No.	Federal Program	Loan Project	Outstanding Loans at June 30, 2018
14.239	HOME Investment Partnerships Program	Transit Village Infrastructure	\$ 1,275,000
14.239	HOME Investment Partnerships Program	Senior Housing SCHDC - PSHP 80 Unit	750,000
14.239	HOME Investment Partnerships Program	Courson - AMCAL 78 Unit	1,000,000
14.239	HOME Investment Partnerships Program	Transitional Housing - Paving the Way	157,916
14.239	HOME Investment Partnerships Program	MF Rental - New Construction (Duplex)	337,551
14.239	HOME Investment Partnerships Program	MF Rental - New Construction (Duplex)	102,449
14.239	HOME Investment Partnerships Program	MF Rental - Acquisition and Rehab	103,139
14.239	HOME Investment Partnerships Program	HOME Down Payment/Assistance Program	82,165
14.239	HOME Investment Partnerships Program	Courson Art Colony East	432,000
14.239	HOME Investment Partnerships Program	CSP - Courson	2,850,000
			<u>\$ 7,090,220</u>

CITY OF PALMDALE, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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>
14.239	HOME Investment Partnerships Program

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, 2018

II. FINANCIAL STATEMENT FINDINGS

None reported.

CITY OF PALMDALE, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

CITY OF PALMDALE, CALIFORNIA

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding No.	Program Name	CFDA No.	Compliance Requirement	Status of Corrective Action
2017-001	Workforce Investment Act (WIA)/Workforce Opportunity Act (WIOA) Cluster	17.258/17.278	Subrecipient Monitoring	Implemented