

CITY OF SIMI VALLEY, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2013

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

To the Honorable Mayor and Members of the City Council
City of Simi Valley, 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 Simi Valley (the City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 16, 2013.

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 City'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 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.



To the Honorable Mayor and Members of the City Council
City of Simi Valley, California

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

City's Response to Finding

The City's response to the findings identified in our audit is described in the accompanying schedule of prior year findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Lance, Soll & Lughard, LLP

Brea, California
December 16, 2013

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 OMB CIRCULAR A-133

To the Honorable Mayor and Members of the City Council
City of Simi Valley, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express opinions on compliance for each of the City of Simi Valley's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB 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 of Simi Valley's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City of Simi Valley complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.



To the Honorable Mayor and Members of the City Council
City of Simi Valley, California

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2013-001, 2013-002, 2013-003 and 2013-004. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control over Compliance

Management of the City of Simi Valley is responsible for establishing and maintaining effective internal control over compliance with the type of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Simi Valley's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal controls over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Simi Valley's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies 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, we identified significant deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-001, 2013-002, 2013-003 and 2013-004.

The City's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



To the Honorable Mayor and Members of the City Council
City of Simi Valley, California

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

Report on Schedule of Expenditures of Federal Awards Required by OMB 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 the City of Simi Valley as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Simi Valley's basic financial statements. We have issued our report thereon dated December 16, 2013, 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. 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 expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Lance, Soll & Lunghard, LLP

Brea, California

February 14, 2014 (except for our report of Schedule of Expenditures of Federal Awards, for which the date is December 16, 2013)

CITY OF SIMI VALLEY

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

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Direct Programs:			
Community Development Block Grants/Entitlement Grants*	14.218	B-11-MC-06-0535 B-12-MC-06-0535	\$ 14,412 436,330
Passed through the State of California, Department of Housing and Community Development: Home Investment Partnership Program	14.239	03-HOME-0681	<u>81,085</u>
Total U.S. Department of Housing and Urban Development			<u>531,827</u>
<u>U.S. Department of Justice</u>			
Direct Program:			
Federal Asset Forfeiture	16.922	N/A	112,506
Passed through the City of Oxnard: Edward Byrne Memorial Formula Grant Program	16.579	2012-H1500-CA-DJ	<u>11,255</u>
Total U.S. Department of Justice			<u>123,761</u>
<u>U.S. Department of Transportation</u>			
Passed through the State of California, Department of Transportation:			
Highway Planning & Construction*	20.205	HSIPL-5405 (059) HSIPL-5405 (069) BHLS-5405 (064) BHLS-5405 (065) CML-5405 (049) CML-5405 (063) STPL-5405 (067) STPL-5405 (070,072,073)	1,900 44,687 5,776 4,183 1,357,667 25,249 601,084 1,988,414
Total Highway Planning and Construction			<u>4,028,960</u>
Direct Program:			
Federal Transit Formula Grants *	20.507	CA-90-Z087-00 CA-95-X221-00 CA-95-X121-00 CA-90-Z060-00	2,258,286 113,000 170,695 400,000
ARRA - Federal Transit Formula Grant* (Recovery Act Funded)	20.507	CA-96-X005	<u>3,934</u>
Total Federal Transit Formula Grant Cluster			<u>2,945,915</u>
Passed through the State of California, Department of Transportation:			
Job Access Reverse Commute Program	20.516	640677	37,240
Passed through the State of California, Office of Traffic Safety:			
State and Community Highway Safety	20.608	PT1307	<u>12,856</u>
Total U.S. Department of Transportation			<u>7,024,971</u>
<u>U.S. Department of Treasury</u>			
Direct Program:			
Federal Asset Forfeiture	21.000	N/A	<u>1,999</u>
Total U.S. Department of Treasury			<u>1,999</u>

CITY OF SIMI VALLEY

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

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Energy</u>			
Direct Program:			
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG) (Recovery Act Funded)	81.128	DE-SC0001754	83,124
Total U.S. Department of Energy			<u>83,124</u>
<u>U.S. Department of Health and Human Services</u>			
Passed through the County of Ventura:			
Aging Cluster Special Programs for the Aging Title III, Part C Nutrition Services	93.045	3C-011-071212	113,434
Total U.S. Department of Health and Human Services			<u>113,434</u>
<u>U.S. Department of Homeland Security</u>			
Passed through the County of Ventura:			
Emergency Management Performance Grants	97.042	2012-0027	31,787
Homeland Security Grant Program	97.067	2010-0085	33,572
Total U.S. Department of Homeland Security			<u>65,359</u>
Total Federal Expenditures			<u>\$ 7,944,475</u>

* Major Program

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

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

Note c: Total amount provided to sub-recipients during the year were for CFDA #14.218 - Community Development Block Grants/Entitlement Grants was \$199,236.

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

Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

a. Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the City of Simi Valley (the City) that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

b. Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

Note 2: Loans Receivable

Loans from CDBG funds in the amount of \$472,835, which includes interest of \$67,013 and HOME funds in the amount of \$1,822,493, which includes interest of \$129,500, are outstanding as of June 30, 2013. During fiscal year 2012-13, there were no new loans made with CDBG funds or HOME funds.

CITY OF SIMI VALLEY

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

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2013-001:

Significant Deficiency

Subrecipient Monitoring

- Federal Programs:
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Number: 14.218
Title: Community Development Block Grants/Entitlement Grants
Grantor Number: B-11-MC-06-0535
- Criteria or specific requirement:
24 CFR 570.503(b) describes the required elements for subrecipient agreements.
- Condition:
Subrecipient contracts maintained by the City and the subrecipient are insufficient according to 24 CFR 570.503(b).
- Cause:
The City was unaware of the specific requirements set forth by the U.S. Department of Housing and Urban Development in relation to the subrecipient agreements.
- Effect:
Without a clear scope of work and completion schedule identified in the sub-recipient agreement, the City has had difficulty in determining and ensuring that subrecipients are meeting acceptable and established goals.
- Questioned cost:
None.
- Recommendation:
We recommend that the City revise its subrecipient agreements to include an accurate, detailed scope of work and programs, including clear outcomes and accomplishments. We also recommend the City amend any existing agreements to include provision for reversion of assets.
- Management's Response:
The City will revise its subrecipient agreements to include accurate detailed scope of work and programs, including clear outcomes and accomplishments. The City will also amend any existing agreements to include a provision for reversion of assets. The City's written agreements with sub-recipients were revised three years ago by the City's legal department. The current agreements were first implemented for 2010-2011 and include a revised line item budget which accurately depicts the program or project budget as it is known at the time the contract was executed. Additionally, the City has required quarterly timelines to better track program and project progress.

CITY OF SIMI VALLEY

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

Finding 2013-002:

Significant Deficiency

Subrecipient Monitoring

- Federal Programs:
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Number: 14.218
Title: Community Development Block Grants/Entitlement Grants
Grantor Number: B-11-MC-06-0535
- Criteria or specific requirement:
24 CFR 570.501(b) – Responsibility for Grant Administration, the recipient is responsible for ensuring that CDBG funds are used in accordance with all program requirements. 24 CFR 85.40 assigns grantees responsibility for managing the day to day operations of grant and subgrant supported activities.
- Condition:
This was a finding from HUD’s monitoring conducted in May 2010. The City has not implemented any monitoring procedures.
- Cause:
The City did not take action to correct this previous finding from HUD.
- Effect:
The City does not have any assurance that CDBG funds were properly monitored and that subrecipients achieved their performance objectives on schedule, within budget, and in compliance with federal requirements.
- Questioned cost:
None.
- Recommendation:
We recommend that the City establish a written policy and procedure for subrecipients and activities administered by other City departments. The City should ensure that monitoring documentation and other records required by regulations are maintained in each project file.
- Management’s Response:
The City will develop and implement a written monitoring policy and procedures for subrecipients and activities administered by other City departments, including a monitoring schedule by which all subrecipients will be monitored on an annual basis and a checklist for on-site monitoring. The City does have a draft of monitoring policies and procedures manual that was developed in consultation with a CDBG representative.

Finding 2013-003:

Significant Deficiency

Program Income

- Federal Programs:
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Number: 14.218

CITY OF SIMI VALLEY

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

Finding 2013-003: Continued

Title: Community Development Block Grants/Entitlement Grants
Grantor Number: B-11-MC-06-0535

- **Criteria or specific requirement:**
24 CFR Part 85.20(b) (3) Standards for financial management systems requires effective control over and accountability for all Federal Funds, property and other assets. In addition, program income is required to be designated and disbursed before voucher requests are made for CDBG funds. The consolidated plan must also describe the Federal resources expected to be available to address the priority needs and specific objectives identified in the strategic plan. Those requirements are in accordance with 24 CFR 91.220(c) (1) and 24 CFR Part 570.504(b) (4) (i) or (ii) (revolving loan fund). These resources include grant funds and program income. 24 CFR 570.504(b) (2) (iii) requires that at the end of each program year, program income that exceeds one twelfth of the most recent grant shall be remitted to HUD, to be placed in the recipient's line of credit. Finally, 24 CFR Section 85.21(i) states that grantees shall at least quarterly remit interest earned on advances to the Federal Agency. Technically, funds are considered advanced and not needed if unrestricted program income is on hand, particularly if they were held over many years by the City.
- **Condition:**
The City accumulated CDBG program income funds in the amount of \$58,460 in the fiscal year 2012-2013. The City did not follow the cited regulations relating to program income. The City's current accounting system does include Line of Credit Control System accounting procedures, internal control procedures, and program income reporting procedures sufficient to comply with HUD program income and internal control requirements.
- **Cause:**
The City was unaware that it needed to modify its current written grant accounting management and program income internal control procedures to adequately safeguard grant assets.
- **Effect:**
The City's non-compliance with the specified requirements may result in questioned and disallowed grant costs.
- **Questioned cost:**
None noted at this time.
- **Recommendation:**
We recommend that the City modify its current written grant accounting management and program income internal control procedures to adequately safeguard grant assets that comply with the noted regulations.
- **Management's Response:**
It is noted that, over a period of time, the City has accumulated CDBG program income. The City will continue to work with HUD and resolve the accounting for and allocation of the existing balance of program income. The City will designate future program income as PI in the next Action Plan and Consolidated Annual Performance Evaluation review (CAPER). In the future, the City will allocate program income toward CDBG eligible expenses during the

CITY OF SIMI VALLEY

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

Finding 2013-003: Continued

next available funding cycle. The City has discontinued the revolving loan fund program, using CDBG funds and understands that if the program is re-established at a future date, the City will be required to redesignate the program income in accordance to governing regulations.

Finding 2013-004:

Significant Deficiency

Special Tests and Provisions

- Federal Programs:
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Number: 14.218
Title: Community Development Block Grants/Entitlement Grants
Grantor Number: B-11-MC-06-0535
- Criteria or specific requirement:
24 CFR Part 8 – Accessibility standards; 24 CFR 91.105(c) (2); 24 CFR 91.105(d) (2); 24 CFR 91.105(g) – Citizen Participation Plan requirements.
- Condition:
The City Citizen Participation Plan does not include a provision to provide the plan in a format accessible to persons with disabilities (e.g. providing oral, Braille, electronic, or large print copies for the visually impaired; and delivering copies to the homebound). The Plan does not state how Citizens will be given notice to comment on substantial amendments to the Consolidation Annual Performance and Evaluation Report that are received in writing or orally during public hearings will be considered by the City. The Plan does not provide that the Consolidated Plan, as adopted, substantial amendments, and the performance report will be available to the public, including the availability of materials in a form accessible to persons with disabilities, upon request.
- Cause:
The City was not aware that certain provisions were missing.
- Effect:
Without the necessary requirements in the Citizen Participation Plan, the City is non-compliant with federal regulations thus putting in jeopardy their future funding status with the Department of Housing and Urban Development.
- Questioned cost:
None.
- Recommendation:
We recommend that the City revise the Citizen Participation Plan to include the required provisions.
- Management's Response:
The City last amended the City's Participation Plan (CCP) on May 16, 2011, as a corrective action to a finding noted in the 2010 monitoring by HUD. The amended CCP was submitted

CITY OF SIMI VALLEY

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

Finding 2013-004: Continued

to HUD in conjunction with the FY 11/12 Action Plan. This new finding was not identified in the 2010 Monitoring or after HUD received the revised CCP in 2011.

CITY OF SIMI VALLEY

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

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2012-1

Net Assets Restatement

As a result of our audit procedures, we noted an item that required a net assets restatement. There were various project costs restated relating to capital assets. We recommend proper controls to be put in place over the review process of the capital assets which will prevent restatements in the future.

Management's Response

The responsible City Departments shall review the capitalization process to determine the proper controls to prevent restatements in the future.

Status

Management has corrected this issue.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.