



# City of La Quinta

**CITY / SA / HA / FA MEETING DATE:** February 4, 2014

**ITEM TITLE:** RECEIVE AND FILE THE SINGLE AUDIT REPORT ON FEDERAL ASSISTANCE PROGRAMS FOR THE PERIOD ENDED JUNE 30, 2013

**AGENDA CATEGORY:**

**BUSINESS SESSION:**

**CONSENT CALENDAR:** 4

**STUDY SESSION:**

**PUBLIC HEARING:**

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## **RECOMMENDED ACTION:**

Receive and file.

## **EXECUTIVE SUMMARY:**

- Organizations that expend \$500,000 or more per year in Federal assistance funds are required to conduct an audit pursuant to the U.S. Office of Management and Budget (OMB).
- This audit, commonly referred to as the "single audit," entails a comprehensive examination of the City's expenditures of Federal assistance funds.
- Once completed, the single audit is filed with the Federal clearinghouse.

## **FISCAL IMPACT:**

None.

## **BACKGROUND/ANALYSIS:**

Agencies that expend federal funds in excess of \$500,000 are required to have an audit performed in accordance with OMB, which provides an independent review of the management and use of Federal funds received by the City. Since the City expended \$3,294,874 in Federal funds in Fiscal Year 2012-13, it is required to have a single audit completed.

The City's contract with its independent auditors, Lance, Soll & Lunghard, LLP, provides for them to perform the single audit. The single audit has been completed and is attached (Attachment 1).

Similar to the City's annual audit and Comprehensive Annual Financial Report, the single audit provides detailed financial information, along with a report on internal controls. Deficiencies in internal controls are presented in one of two categories:

- Material weakness – defined as a deficiency, or 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.
- Significant deficiency – defined as a deficiency, or 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.

The City's single audit noted that no matters involving the internal control structure and operation of the City were considered to be a material weakness. However, the audit identified an instance considered to be a significant deficiency in internal control. Specifically, the deficiency noted was that grants had not been completely reconciled to the general ledger at the end of the fiscal year. Additionally, during the audit of the Schedule of Expenditures of Federal Awards, it was noted that federal grants had not been included on the Schedule of Expenditures. These findings were also noted in the City's annual audit, and have been addressed with the implementation of procedures to ensure that all grants are accounted for appropriately and that grant expenditures and revenues are reconciled to the general ledger prior to the close of each fiscal year.

**ALTERNATIVES:**

There are no alternatives to the recommended action; federal regulations require this audit be received and filed by the City.

Report prepared by: Patrick Griffin, Interim Finance Director

Report approved for submission by: Frank J. Spevacek, City Manager

Attachment:           1.     Single Audit Report on Federal Awards Year Ended June 30, 2013

CITY OF LA QUINTA, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2013

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**CITY OF LA QUINTA**

**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 La Quinta, 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 La Quinta, California, (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 November 25, 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as finding 2013-001 that we consider to be significant deficiencies.

**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



To the Honorable Mayor and Members of the City Council  
City of La Quinta, California

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*.

### City's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying schedule of 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 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.

Brea, California  
November 25, 2013

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Honorable Mayor and Members of the City Council  
City of La Quinta, California

### **Report on Compliance for Each Major Federal Program**

We have audited the City of La Quinta's (the City) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2013. 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 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'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 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 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 of La Quinta 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 La Quinta, California

### **Report on Internal Control over Compliance**

Management of the City 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'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'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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of La Quinta, California, 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. We have issued our report thereon dated November 25, 2013, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget 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.





To the Honorable Mayor and Members of the City Council  
City of La Quinta, 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.

*Lance, Soll & Loughard, LLP*

Brea, California  
January 13, 2014 (except for the Schedule of Expenditures of Federal Awards which is as of  
November 25, 2013)

## CITY OF LA QUINTA

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>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Direct Programs:			
Rural Rental Assistance Payments*	10.427	04-033-764165310	\$ 433,808
<b>Total U.S. Department of Agriculture</b>			<b>433,808</b>
<u>U.S. Department of Housing and Urban Development</u>			
Passed through the County of Riverside, Economic Development Agency:			
Community Development Block Grant	14.218	4.LQ.15-12	66,340
<b>Total U.S. Department of Housing and Urban Development</b>			<b>66,340</b>
<u>U.S. Department of Interior</u>			
Passed through the State of California, Office of Historic Preservation:			
Historic Preservation Funds Grants-In-Aid	15.904	06-11-31911	10,000
<b>Total U.S. Department of Interior</b>			<b>10,000</b>
<u>U.S. Department of Justice</u>			
Direct Program:			
ARRA - Edward Byrne Memorial Justice Assistance Grant	16.803	2012	9,637
<b>Total U.S. Department of Justice</b>			<b>9,637</b>
<u>U.S. Department of Transportation</u>			
Passed through the State of California, Department of Transportation:			
Highway Planning & Construction*	20.205	RSTPLE-5433(008)	2,696,744
Passed through the County of Riverside Department of Transportation:			
State and Community Highway Safety	20.600	SC 13208	58,708
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	AL1387	7,630
<b>Total U.S. Department of Transportation</b>			<b>2,763,082</b>
<u>U.S. Department of Homeland Security</u>			
Passed through the State of California, Office of Homeland Security:			
Emergency Management Performance Grant	97.042	FY12-EMPG	7,500
Passed through the State of California, Office of Homeland Security:			
Homeland Security Grant Program	97.067	FY12-HSGP	1,507
<b>Total U.S. Department of Homeland Security</b>			<b>9,007</b>
<b>Total Federal Expenditures</b>			<b>\$ 3,291,874</b>

\* Major Program

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

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

Note c: There were no federal awards provided to subrecipients.

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

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

**a. Scope of Presentation**

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

**b. Basis of Accounting**

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

CITY OF LA QUINTA

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

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SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified Opinion

Internal control over financial reporting:

- Significant deficiencies identified?  yes  no
- Material weaknesses identified?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified?  yes  no
- Material weaknesses identified?  yes  none reported

Type of auditors' report issued on compliance for major programs: Unqualified Opinion

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.427	Rural Rental Assistance Payments
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between type A and type B program \$300,000

Auditee qualified as low-risk auditee?  yes  no

CITY OF LA QUINTA

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

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SECTION II - FINANCIAL STATEMENT FINDINGS

**Finding 2013-001**

Grant Management and Reconciliation

During our audit procedures of the federal grants, we noted that grants had not been completely reconciled to the general ledger at the end of the fiscal year resulting in audit adjusting entries to accrue receivables for expenditures incurred and eligible for reimbursement. Additionally, during our audit procedures of the Schedule of Expenditures of Federal Awards, we noted that federal grants had not been included on this schedule. We recommend that grant activities be reconciled shortly after fiscal year end to record any receivables and that a review function be established to detect errors when preparing the Schedule of Federal Expenditures.

Management's Response: Staff met with the auditor to devise a procedure that will ensure that all grants are properly accounted for and recorded on the Schedule of Expenditures of Federal Awards.

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SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

CITY OF LA QUINTA

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

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SECTION II - FINANCIAL STATEMENT FINDINGS

**Finding 2012-001**

Grant Management and Reconciliation

During our audit procedures of the federal grants, we noted that grants had not been completely reconciled to the general ledger at the end of the fiscal year resulting in audit adjusting entries to accrue receivables for expenditures incurred and eligible for reimbursement. Additionally, during our audit procedures of the Schedule of Expenditures of Federal Awards, we noted that grants had not been properly reconciled to the end of fiscal year balance and that various grants were not on the schedule. We recommend that grant activities be reconciled shortly after fiscal year end to record any receivables and that a review function be established to detect errors when preparing the Schedule of Federal Expenditures.

Status: Similar items were identified during the fiscal year 2013 financial audit.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**Finding 2012-002**

Program

CFDA Number: 81.128  
Title: ARRA – Energy Efficiency and Conservation Block Grant  
Federal Grantor: U. S. Department of Energy  
Grant Number: DE-EE0001525

Criteria

The City is required to have separate funds or accounts set up in the general ledger to separately track the activity of ARRA funds.

Condition

The ARRA – Energy Efficiency and Conservation Block Grant funds were reported in the general ledger with other non-recovery act funded projects.

Cause

Management recorded expenditures related to ARRA funds with other non-recovery act funds, separation of funds is required.

Questioned Costs

None

Effect

The City is not in compliance with the requirement that as a distinct funding source, ARRA funds should be reported in separate funds, accounts, or cost centers in the general ledger.

Recommendation

The City should create a separate fund or accounts in the general ledger to separately track the ARRA funds activity.

Current Status

The remaining Recovery Act program that the City was awarded is being reporting separately in the trial balance.