

# **City of Lakewood**

Lakewood, California

## **Single Audit and Independent Auditors' Reports**

*For the Year Ended June 30, 2016*





# City of Lakewood

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

***Independent Auditors' Report***

To the Honorable Mayor and Members of City Council  
of the City of Lakewood  
Lakewood, 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 Lakewood, California (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, and have issued our report thereon dated November 30, 2016.

**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.

To the Honorable Mayor and Members of City Council  
of the City of Lakewood  
Lakewood, California  
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### **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.

*The PwC Group, LLP*

Santa Ana, California  
November 30, 2016



**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**

**Independent Auditor's Report**

To the Honorable Mayor and Members of City Council  
of the City of Lakewood  
Lakewood, California

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

We have audited the City of Lakewood, California's (the "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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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* (the "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 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, 2016.

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## **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 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 weakness. However, we identified certain deficiencies in internal control over compliance as described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001 that we consider to be significant deficiency.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

To the Honorable Mayor and Members of City Council  
of the City of Lakewood  
Lakewood, California  
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### **Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2016, 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 30, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming our 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 Uniform Guidance 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 other 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.

*The PwC Group, LLP*

Santa Ana, California  
November 30, 2016

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**City of Lakewood**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2016**

Federal Grantor/Pass - Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures	Expenditures to Subrecipients
<b>U.S. Department of Commerce:</b>				
<i>Passed through Gateway Cities Council of Governments</i>				
Economic Development Cluster:				
Economic Adjustment Assistance - Revolving Loan Funds	11.307	07-49-03857	\$ 820,887	\$ -
<b>Total U.S. Department of Commerce</b>			<u>820,887</u>	<u>-</u>
<b>U.S. Department of Housing and Urban Development:</b>				
<i>Direct Programs:</i>				
CDBG - Entitlement Grants Cluster:				
Community Development Block Grants / Entitlement Grants	14.218	B-14 Program Income	24,457	-
Community Development Block Grants / Entitlement Grants	14.218	B-14-MC-06-0521	330,295	33,000
<b>Total U.S. Department of Housing and Urban Development</b>			<u>354,752</u>	<u>33,000</u>
<b>U.S. Department of Interior, Bureau of Reclamation:</b>				
<i>Passed through L.A. Gateway Region Integrated Regional Water Management</i>				
Joint Powers Authority, a CA Joint Powers Authority (GWMA)				
Water SMART (Sustaining and Manage America's Resources for Tomorrow)	15.507	R14AP00081	80,785	-
<b>Total U.S. Department of Interior, Bureau of Reclamation:</b>			<u>80,785</u>	<u>-</u>
<b>U.S. Department of Justice:</b>				
<i>Direct Program:</i>				
JAG Program Cluster:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJ-BX-0028	16,409	-
<b>Total U.S. Department of Justice</b>			<u>16,409</u>	<u>-</u>
<b>U.S. Department of Transportation:</b>				
<i>Passed through State of California Department of Transportation</i>				
Highway Planning and Construction	20.205	STPL-5315(013)	655,873	-
<b>Total U.S. Department of Transportation</b>			<u>655,873</u>	<u>-</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 1,928,706</u>	<u>\$ 33,000</u>

**City of Lakewood**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2016**

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**Note 1 – Reporting Entity**

The financial reporting entity consists of the primary government, City of Lakewood (the “City”), organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

The City Council acts as the governing body and is able to impose its will on the following organizations, establishing financial accountability:

- The Lakewood Public Financing Authority

**Note 2 – Summary of Significant Accounting Policies**

***Basis of Accounting***

The activity of the City’s federal award programs are reported within the special revenue funds and the agency funds of the City. The City utilizes the modified accrual basis of accounting for the special revenue funds and accrual basis of accounting for agency funds as described in Note 2 to the City’s basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 2, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the “Uniform Guidance”). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in, the preparation of the City’s basic financial statements.

***Schedule of Expenditures of Federal Awards***

The accompanying Schedule presents the activity of all federal awards programs of the City and, therefore, does not present the financial position or results of operations of the City. Federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through the Gateway Cities Council of Governments are included in the Schedule.

***Catalog of Federal Domestic Assistance (CFDA) Numbers***

The CFDA numbers included in the accompanying Schedule were determined based on the program name, review of grant contract information, and the Office of Management and Budget’s Catalog of Federal Domestic Assistance.

***Indirect Cost Rate***

The City did not elect to use the 10% de minimis cost rate.

**City of Lakewood**  
**Notes to the Schedule of Expenditures of Federal Awards (Continued)**  
**For the Year Ended June 30, 2016**

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**Note 3 –Department of Commerce, Economic Adjustment Assistance Revolving Loan Fund (“RLF”) Grant**

For the purpose of presenting the Schedule in accordance with Uniform Guidance, the Department of Commerce, Economic Development Administration (“EDA”) RLF grant is shown as a separate line item calculated as follows:

<b>Federal Award Expenditure Calculation</b>	
Balance of RLF Loans at June 30, 2016:	\$ 34,202
Cash and investment balance in the RLF at June 30, 2016:	1,058,234
Administrative expenses paid during the year:	2,080
Total	\$ 1,094,516
Federal Share of the RLF	75%
Total Federal Award Expended	\$ 820,887

**Note 4 – Subrecipients**

During the year ended June 30, 2016, the City provided federal funds to the following subrecipients:

CFDA Number	Program Name / Subrecipient Names	Amount Provided to Subrecipients
14.218	Community Development Block Grants Entitlement Grants:	
	Community Family Guidance	\$ 9,000
	Human Services Association	4,500
	Pathways Volunteer Hospice	9,000
	Meals on Wheels	10,500
	Total Amount Provided to Subrecipients	\$ 33,000

**City of Lakewood**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2016**

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**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: : Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? No

**Federal Awards**

Internal control over major federal programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? 2016-001

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) Yes

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	<u>Expenditures</u>
20.205	Highway Planning and Construction	\$ 655,873
	Total Expenditures of All Major Federal Programs	<u>\$ 655,873</u>
	Total Expenditures of Federal Awards	<u>\$ 1,928,706</u>
	Percentage of Total Expenditures of Federal Awards	<u>34.01%</u>

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee under 2 CFR 200.520? Yes

**City of Lakewood**  
**Schedule of Finds and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2016**

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**Section II – Financial Statement Findings**

No financial statements findings were noted for the year ended June 30, 2016.

**A. Current Year Findings – Financial Statement**

No current year findings were noted.

**B. Prior Year Findings – Financial Statement**

No prior year findings were noted.

**Section III – Federal Award Findings and Questioned Costs**

**A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit**

**2016-001 Procurement and Suspension, and Debarment – Internal Control over Verification Against the System for Award Management (“SAM”)**

**Information on the Federal Program:**

Highway Planning and Construction Grant (CFDA Number 20.205, U.S. Department Transportation, Passed through State of California, Department of Transportation (“Caltrans”), Award Number STPL-5315(013))

**Criteria:**

Suspension and Debarment, Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All nonprocurement transactions entered into by a recipient (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR section 180.215.

When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity, as defined in 2 CFR section 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the System for Award Management (SAM) Exclusions maintained by the General Services Administration (GSA) and available at <https://www.sam.gov/portal/public/SAM/> (Note: The OMB guidance at 2 CFR part 180 and agency implementing regulations still refer to the SAM Exclusions as the Excluded Parties List System (EPLS)), (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

**Condition:**

During our audit, we noted that the City did not have documentation on verifying the vendors against the SAM to ensure that they were not suspended or debarred from federally—funded purchases.

**Questioned Costs:**

None

**City of Lakewood**  
**Schedule of Finds and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2016**

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**Section III – Federal Award Findings and Questioned Costs (Continued)**

**A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)**

**2016-001 Procurement and Suspension, and Debarment – Internal Control over Verification Against the System for Award Management (“SAM”) (Continued)**

**Context:**

See condition above for context of the finding.

**Effect:**

Without verifying whether vendors are suspended or debarred from working on federally-funded projects, the City could be contracting with vendors that are prohibited from working on federally-funded projects.

**Cause:**

The City does not have a formal policy to require departments to perform suspension or debarment over vendors that the City makes contracts with federally-funded projects.

**Identification as a Repeat Finding, If Applicable:**

Not applicable

**Recommendation:**

We recommended the City establish proper internal control procedures to monitor compliance requirements to ensure vendors are not suspended or debarred from federally-funded purchases.

**Management Corrective Action Plan:**

Effective immediately, Assistant Director of Public Works Max Withrow or Sr Project Manager Randy Meyer will ensure that the System for Award Management (SAM) is utilized to make sure that the vendor(s) hired/contracted are not suspended or debarred from federally-funded purchases.

**City of Lakewood**  
**Schedule of Finds and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2016**

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**Section III – Federal Award Findings and Questioned Costs (Continued)**

**B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit**

**2015-01 Reporting – Internal Controls and Compliance Over Reporting**

**Program:**

Department of Commerce, Economic Adjustment Assistance Revolving Loan Fund (“RLF”) Grant (CFDA Number 11.307, Gateway Cities Council of Governments. Award Number 07-49-03857)

**Condition:**

During our audit, we noted that the City did not submitted ED-209 and ED-209I for the period ending March 31, 2015 within 30 days timely. The City submitted on May 5, 2015 and the due date for the report was April 30, 2015.

**Recommendation:**

We recommend the City enforce the monitoring control over reporting process to ensure filing is completed timely

**Status:**

Finding was resolved during the year ended June 30, 2016 by reviewing the timely submission of ED-209 and ED-209I filed by the City.