

City of Lakewood

Lakewood, California

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2017



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, 2017, 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 29, 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.

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.

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California
November 29, 2017



**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, 2017. 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, 2017.

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Other Matters

The results of auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings 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 compliance and accordingly, we express no opinion on the response.

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 have not been 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 2017-001 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, 2017, 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 29, 2017, 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 29, 2017

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City of Lakewood
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Grantor/Pass - Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures	Expenditures to Subrecipients
U.S. Department of Commerce:				
<i>Passed through Gateway Cities Council of Governments</i>				
Economic Development Cluster:				
Economic Adjustment Assistance - Revolving Loan Funds	11.307	07-49-03857	\$ 822,913	\$ -
Total Economic Development Cluster			822,913	-
Total U.S. Department of Commerce			822,913	-
U.S. Department of Housing and Urban Development:				
<i>Direct Programs:</i>				
CDBG - Entitlement Grants Cluster:				
Community Development Block Grants / Entitlement Grants	14.218	B-14-MC-06-0521	86,296	-
Community Development Block Grants / Entitlement Grants	14.218	B-15 Program Income	67,804	
Community Development Block Grants / Entitlement Grants	14.218	B-15-MC-06-0521	260,078	34,000
Total CDBG - Entitlement Grants Cluster			414,178	34,000
Total U.S. Department of Housing and Urban Development			414,178	34,000
U.S. Department of Justice:				
<i>Direct Program:</i>				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2016-DJ-BX-0237	17,447	-
Total U.S. Department of Justice			17,447	-
Total Expenditures of Federal Awards			\$ 1,254,538	\$ 34,000

City of Lakewood
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

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, 2017

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

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:

Federal Award Expenditure Calculation	
Balance of RLF Loans at June 30, 2017:	\$ 19,450
Cash and investment balance in the RLF at June 30, 2017:	1,077,767
Total	\$ 1,097,217
Federal Share of the RLF	75%
Total Federal Award Expended	\$ 822,913

Note 4 – Subrecipients

During the year ended June 30, 2017, 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	5,500
	Pathways Volunteer Hospice	9,000
	Meals on Wheels	10,500
	Total Amount Provided to Subrecipients	\$ 34,000

City of Lakewood
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

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? 2017-001

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 federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	<u>Expenditures</u>
14.218	CDBG - Entitlement Grants Cluster:	
	Community Development Block Grants / Entitlement Grants	\$ 414,178
	Total Expenditures of All Major Federal Programs	<u>\$ 414,178</u>
	Total Expenditures of Federal Awards	<u>\$ 1,254,538</u>
	Percentage of Total Expenditures of Federal Awards	<u>33.01%</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 Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II – Financial Statement Findings

A. Current Year Findings – Financial Statement

No current year findings were noted.

B. Prior Year Findings – Financial Statement

No prior year findings were noted.

City of Lakewood
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs

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

2017-001 Allowable Costs/Cost Principles– Internal Control and Compliance over Payroll Expenditures

Information on the Federal Program:

Community Development Block Grants/Entitlement Grants (CFDA Number 14.218, U.S. Department of Housing and Urban Development, Award Numbers B-14-MC-06-0521 and B-15-MC-06-0521)

Criteria:

Pursuant to §200.430 Compensation - Personal Services under Uniform Guidance Title 2 Grants and Agreement, Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Subpart E – Cost Principles:

In general, costs of compensation are allowable to the extent that they satisfy the specific requirements of this part, and that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established written policy of the non-Federal entity consistently applied to both Federal and non-Federal activities;
- (2) Follows an appointment made in accordance with a non-Federal entity's laws and/or rules or written policies and meets the requirements of Federal statute, where applicable; and
- (3) Is determined and supported as provided in paragraph in accordance with the Standards for Documentation of Personnel Expenses.

When budget estimates are used, the Standards for Documentation of Personnel Expenses require the following:

Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that:

- (A) The system for establishing the estimates produces reasonable approximations of the activity actually performed;
- (B) Significant changes in the corresponding work activity (as defined by the non-Federal entity's written policies) are identified and entered into the records in a timely manner. Short term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term; and
- (C) The non-Federal entity's system of internal controls includes processes to review after-the-fact interim charges made to a Federal awards based on budget estimates. All necessary adjustment must be made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated.

Condition:

During our audit, we noted that the City charged the payroll related expenditures to the program based on the City Council approved budget and payroll allocation percentage; however, there was no further reconciliation of actual activities performed by the City staff during the year to the budgeted allocation.

City of Lakewood
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Award Findings (Continued)

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

2017-001 Allowable Costs/Cost Principles– Internal Control and Compliance over Payroll Expenditures (Continued)

Questioned Costs:

None

Context:

We selected 37 payroll charges out of 156 payroll charges for our testing and all payroll charges were based on Council approved payroll allocations.

Effect:

Without further reviewing and reconciliation over actual activities performed by the City staff, the City is not in compliance with the Uniform Guidance.

Cause:

The City does not have updated policies or procedures to address the Uniform Guidance requirements.

Identification as a Repeat Finding, If Applicable:

Not applicable

Recommendation:

We recommended the City incorporate the Uniform Guidance requirements into its existing policies and procedures to ensure the City is in compliance with the Uniform Guidance.

View of Responsible Officials and Planned Corrective Actions:

City staff will have an updated policies and procedures to address the Uniform Guidance requirements. Furthermore, on a quarterly basis, Sr. Accountant will ‘true-up’ the payroll expenditure to reflect the actual time spent on the grant.

City of Lakewood
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

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

B. Prior 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”)

Program:

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

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.

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.

Status:

Finding was resolved during the year ended June 30, 2017.