

CITY OF POMONA, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2015

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CITY OF POMONA

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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 Pomona, 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 City of Pomona, California, (the City) as of and for the year ended June 30, 2015, 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, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.



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

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, Solt & Lughard, LLP

Brea, California
December 16, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of Pomona, California (the City)'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's major federal programs for the year ended June 30, 2015. 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 laws, regulations, contracts, and grants 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; 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'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, 2015.



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

Other Matters

The results of our auditing procedures disclosed one instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2015-001. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance 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 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 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. However, we identified one deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-001, which we consider to be a significant deficiency.

The City's response to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the response.



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

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 Pomona, California, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 16, 2015, which contained an unmodified opinion 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 the 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 expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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 report is not suitable for any other purpose.

Lance, Soll & Lughard, LLP

Brea, California
December 16, 2015

CITY OF POMONA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

<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 Housing and Urban Development</u>			
Direct Programs:			
Community Development Block Grants/Entitlement Grants *	14.218	B-08-MN-06-0516 B-11-MN-06-0516 B-14-MC-06-0527	\$ 27,281 172,006 1,686,610 <u>1,885,897</u>
Emergency Solutions Grant Program *	14.231	E-14-MC-06-0527	194,803
Supportive Housing Program	14.235	CA0436L9D001306	149,255
Shelter Plus Care *	14.238	CA0462L9D001306	864,995
Home Investment Partnerships Program	14.239	M-12-MC-06-0528 M-14-MC-06-0528	385,368 1,163,156 <u>1,548,524</u>
Section 8 Housing Choice Vouchers *	14.871	CA1230014-0028	8,261,105
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	CALHB0493-11	862,950
Passed through the Los Angeles County			
Homeless Service Authority:			
Supportive Housing Program	14.235	CA0358L9D001306	<u>198,695</u>
Total U.S. Department of Housing and Urban Development			<u>13,966,224</u>
<u>U.S. Department of Justice</u>			
Direct Program:			
Public Safety Partnership and Community Policing Grants	16.710	2009RJWX0013	814,626
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-DJ-BX-2404 2013-DJ-BX-0635 2014-DJ-BX-0057	14,091 3,241 73,337 <u>90,669</u>
Equitable Sharing Program *	16.922	N/A	<u>1,605,108</u>
Total U.S. Department of Justice			<u>2,510,403</u>
<u>U.S. Department of Transportation</u>			
Passed through the State of California			
Department of Transportation:			
Highway Planning and Construction *	20.205	STPLN-5070(31) HSIPL-5070(027) STPLN-5070(30)	38,123 573,777 38,087 <u>649,987</u>
Total U.S. Department of Transportation			<u>649,987</u>
<u>U.S. Department of the Treasury</u>			
Direct Program:			
Equitable Sharing Program	21.000	N/A	<u>325,512</u>
Total U.S. Department of the Treasury			<u>325,512</u>
<u>U.S. Department of Health and Human Services</u>			
Passed through the County of Los Angeles:			
Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045	AAA-ENP-1216-012	<u>159,193</u>
Total U.S. Department of Health and Human Services			<u>159,193</u>

CITY OF POMONA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

<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 Homeland Security</u>			
Passed through the County of Los Angeles:			
Homeland Security Grant Program	97.004	N/A	<u>40,000</u>
Total U.S. Department of Homeland Security			<u>40,000</u>
Total Federal Expenditures			<u><u>\$ 17,651,319</u></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 was no federal awards expended in the form of noncash assistance and insurance in effect during the year.

Note c: Refer to Note 2 to the schedule of expenditures of federal awards for payments made to subrecipients during the year.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

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 Pomona, 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.

Note 2: Payments to Subrecipients

For the year ended June 30, 2015, payments to subrecipients consisted of the following:

CFDA #	Program Name	Amount
14.218	Community Development Block Grants/Entitlement Grants	\$ 180,355
14.231	Emergency Solutions Grant Program	93,601
14.235	Supportive Housing Program	314,865

CITY OF POMONA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2015-001:

Significant Deficiency
Reporting

- 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-08-MN-06-0516, B-11-MN-06-0516, and B-14-MC-06-0527

 - Federal Agency: U.S. Department of Housing and Urban Development
 - CFDA Number: 14.231
 - Title: Emergency Solutions Grant Program
 - Grantor Number: E-14-MC-06-0527

- Criteria or specific requirement:

According to the White House's Office of Management and Budget, (1) the submission of interim Federal Financial Reports (FFRs) will be on a quarterly, semi-annual, or annual basis, as directed by the Federal Agency. A final FFR shall be submitted at the completion of the award agreement. The following reporting period end dates shall be used for interim reports: 3/31, 6/30, 9/30, or 12/31. For final FFRs, the reporting period end dates shall be the end date of the project or grant period. The U.S. Department of Housing and Urban Development requires a quarterly FFR using Standard Form 425 (SF-425). (2) Quarterly and semi-annual interim reports shall be submitted no later than 30 days after the end of each reporting period. Final reports shall be submitted no later than 90 days after the project or grant period end date.

- Condition:

The City files its SF-425 FFRs jointly for both the Community Development Block Grants/Entitlement Grants program and the Emergency Solutions Grant Program. For the quarter ended 6/30/15, the FFR was due 7/31/2015, however it was filed on 9/3/15.

- Cause:

The City was experiencing personnel changes in the position responsible for filing the reports at the time of filing.

- Effect:

The City was late in filing its 6/30/15 quarterly report.

- Questioned cost:

None.

CITY OF POMONA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding 2015-001 (Continued):

- Recommendation:
We recommend that the City set procedures to ensure that FFRs are filed in a timely manner.
- Management's Response:
The City had staff shortages due to turnover and resulting reassignments which led to the late filing. The City has implemented procedures to correct this issue going forward.

CITY OF POMONA

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2014-001:

Significant Deficiency

Procurement, Suspension and Debarment

- Federal Programs:
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Number: 14.231
Title: Emergency Solutions Grant Program
Grantor Number: E-11-MC-06-0527, E-12-MC-06-0527, and E-13-MC-06-0527
- Criteria or specific requirement:
OMB guidance 2 CFR § 180.300 requires a participant who enters into a covered transaction with another person to verify that the person with whom it intends to do business is not excluded or disqualified by (a) checking the SAM website; or (b) collecting a certification from that person if allowed by the Federal agency responsible for the transaction; or (c) adding a clause or condition to the covered transaction with that person.
- Condition:
The subrecipient contracted by the City was not checked against the SAM database, and no certification from the subrecipient was collected, either a clause or condition to the covered transactions was included in the contract.
- Cause:
The City was unaware of the requirement to check subrecipients for debarment.
- Effect:
The City was unable to substantiate its compliance with this requirement.
- Questioned cost:
None. We verified the subrecipient's name in the SAM database and no exception was noted.
- Recommendation:
We recommend that the City set procedures to ensure that subrecipients are checked against the SAM database prior to awarding a contract.
- Management's Response:
The City is aware of federal debarment and suspension requirements. However, during fiscal year 2013-14, debarment checks were only done for construction contracts, and not subrecipient agencies. For fiscal year 2014-15, debarment checks are being performed for all agencies awarded federal funds regardless of the type of contract.

CITY OF POMONA

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding 2014-001 (Continued):

Procedures to ensure that subrecipients are checked against the SAM database now include the following:

- A debarment/suspension line-item check is included in the checklists of RFP/RFQ/RFB's and checked when proposals/bids/qualifications are received from agencies and prior to contract execution.
- All contracts have been reviewed and revised, if necessary to include appropriate debarment/suspension language.
- A debarment/suspension line-item check is included in the financial Purchase Order checklist prior to encumbrance/disbursement of federal funds.
- Labor Standards section of the Grants Division's Policies and Procedures manual will be updated to stipulate debarment/suspension checks for all agencies/ contractors, including subrecipient agencies for all federal programs.

- Current Status:
No similar instance noted in fiscal year 2014-15.

Finding 2014-002:

Significant Deficiency

Procurement, Suspension and Debarment

- Federal Programs:
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Number: 14.256
Title: Neighborhood Stabilization Program – HERA
Grantor Number: B-08-MN-06-0516 and B-11-MN-06-0516
- Criteria or specific requirement:
OMB guidance 2 CFR § 180.300 requires a participant who enters into a covered transaction with another person to verify that the person with whom it intends to do business is not excluded or disqualified by (a) checking the EPLS; or (b) collecting a certification from that person if allowed by the Federal agency responsible for the transaction; or (c) adding a clause or condition to the covered transaction with that person.
- Condition:
The City did maintain documentation showing that the verification was performed, but the verification was performed after the contract was executed.
- Cause:
Program employees were unaware that compliance requirement were to be performed prior to the contract being approved.
- Effect:
The City was unable to substantiate its compliance with this requirement.
- Questioned cost:
None. For the item tested, we verified the vendor's name in the SAM database and no exceptions were noted.

CITY OF POMONA

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding 2014-002 (Continued):

- Recommendation:
We recommend that the City set procedures to check the SAM website prior to awarding a contract, or obtain certification from the vendor or include the clause in their standard contract.
- Management's Response:
In cases where the City contracts with a Developer which will be responsible for site acquisition, new construction and/or rehabilitation of properties, the City has implemented the following policy:
 - To notify developers that a debarment check must be conducted **prior** to the execution of a construction contract/subcontract and a six-month recheck must be performed.
- Current Status:
No similar instance noted in fiscal year 2014-15.

Finding 2014-003:

Significant Deficiency

Allowable Costs-Cost Principles

- Federal Programs:
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Number: 14.256
Title: Neighborhood Stabilization Program - HERA
Grantor Number: B-08-MN-06-0516 and B-11-MN-06-0516
- Criteria or specific requirement:
Entities may charge developer's fees only when (i) activities are carried out pursuant to 24 CFR 570.202(b)(1), which allows a grantee to provide CDBG or NSP funds to private individuals and other entities to finance the acquisition and rehabilitation of property for use or resale for residential purposes, or (ii) NSP funds are provided to private individuals and other entities to finance construction of new housing in connection with the redevelopment of demolished or vacant properties. The purpose of allowing the developer's fee to be included in the cost of a project is to compensate the developer for related overhead expenses and to provide a return on the developer's investment (which return may be referred to as "profit" for simplicity's sake). The overhead expense intended to be defrayed by the developer's fee is very similar to the General Administrative costs in the grantee budget, and may include such indirect costs as rent, utilities, and other expenses that cannot be linked to a specific project. However, no comparable allowance for profit can be included in the grantee/subrecipient budget since OMB cost principles circulars do not provide for charges to a grant that include an increment above actual cost.
- Condition:
The City requested reimbursements included developer fees, profit and overhead expenses relating to the property located at 1190 Casa Vista. Per NSP Policy Alert for Guidance on Allocating Real Estate Development Costs in the Neighborhood Stabilization Program dated 9/16/2011, no allowance for profit can be included in the grantee/subrecipient budget since OMB cost principles circulars do not provide for charges to a grant that include an increment above actual cost.

CITY OF POMONA

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding 2014-003 (Continued):

- Cause:
Program employees were unaware that profit and overhead were considered unallowable costs.
- Effect:
The City was unable to substantiate compliance with this requirement.
- Questioned cost:
Total questioned costs amounted to \$15,384.60. The amount is composed of \$7,656.00 from Draw #1, \$5,888.25 from Draw #2 and \$1,840.35 from Draw #3 for the year.
- Recommendation:
We recommend that the City review the allowable costs for the grant and thoroughly inspect the reimbursement requests to include only allowable costs.
- Management's Response:
A recent OIG Audit Report indicated that it would be double-dipping if a developer received both developer fees and profit and overhead. The developer was acting not only as the developer but also as the general contractor for their projects and as such, charged a "profit and overhead" for acting as the general contractor. According to NSP Policy Alerts – "Guidance on Developers, Subrecipients, and Contractors" dated August 27, 2010 and updated on November 16, 2011, a developer may charge contractor fee or brokerage fee if performing separate services for activity delivery and general administration (page 6 of the Alert). Therefore, the City does not agree with this finding.
- Current Status:
No similar instance noted in fiscal year 2014-15.