



CPAs AND ADVISORS

# CITY OF ROSEMEAD, CALIFORNIA

JUNE 30, 2018

SINGLE AUDIT REPORT

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CITY OF ROSEMEAD, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2018

**CITY OF ROSEMEAD, CALIFORNIA**

**JUNE 30, 2018**

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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 Rosemead, 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, each major fund, and the aggregate remaining fund information of the City of Rosemead, California (the City), as of and for the year ended June 30, 2018, 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 17, 2018.

#### **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.

#### **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*.





CPAs AND ADVISORS

To the Honorable Mayor and Members of the City Council  
City of Rosemead, 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, Soll & Lughard, LLP*

Brea, California  
December 17, 2018



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 THE UNIFORM GUIDANCE

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

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

We have audited the City of Rosemead, California (the City)'s 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, 2018. 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 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; and 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* (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, 2018.



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

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2018-001. 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 the 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. 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 a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-001, that we consider to be a 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 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 Rosemead, California

### **Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Rosemead, California, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 17, 2018, 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 the 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 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Lance, Soll & Lughard, LLP*

Brea, California

March 14, 2019 (except for our report on the schedule of federal awards, for which the date is December 17, 2018)

CITY OF ROSEMEAD, CALIFORNIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<u>CDBG - Entitlement Grants Cluster:</u>				
U.S. Department of Housing and Urban Development Programs:				
Direct Programs:				
Community Development Block Grants/Entitlement Grants	14.218	N/A	\$ 48,402	\$ 460,232
Total Department of Housing and Urban Development Programs in Cluster			48,402	460,232
<b>Total CDBG - Entitlement Grants Cluster</b>			<b>48,402</b>	<b>460,232</b>
<u>Highway Planning and Construction Cluster:</u>				
U.S. Department of Transportation Programs:				
Passed through the State of California Department of Transportation:				
Highway Planning and Construction *	20.205	04-478-0696	-	1,115,615
Total Department of Transportation Programs in Cluster			-	1,115,615
<b>Total Highway Planning and Construction Cluster</b>			<b>-</b>	<b>1,115,615</b>
<u>U.S. Department of Housing and Urban Development:</u>				
Direct Programs:				
Home Investment Partnerships Program	14.239	N/A	-	147,270
<b>Total U.S. Department of Housing and Urban Development</b>			<b>-</b>	<b>147,270</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 48,402</b>	<b>\$ 1,723,117</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.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2018**

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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 Rosemead, 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.

**c. Indirect Cost Rate**

The City has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

CITY OF ROSEMEAD, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

- Significant deficiencies identified?                    \_\_\_yes                    Xno
- Material weaknesses identified?                    \_\_\_yes                    Xnone reported

Noncompliance material to financial statements noted?                    \_\_\_yes                    Xno

Federal Awards

Internal control over major programs:

- Significant deficiencies identified?                    Xyes                    \_\_\_no
- Material weaknesses identified?                    \_\_\_yes                    Xnone reported

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

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200?                    Xyes                    \_\_\_no

Identification of major programs:

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

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

Auditee qualified as low-risk auditee?                    Xyes                    \_\_\_no

**CITY OF ROSEMEAD, CALIFORNIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

Reference Number: 2018-001  
CFDA Number(s): 20.205  
Federal Award Number(s): STPL-5358(017), HSIPL-5358(015), ATPL-5358(018)  
Name(s) of Federal Agencies: U.S. Department of Transportation  
Name(s) of Pass-Through Entities: State of California Department of Transportation (Caltrans)  
Program Title(s): Highway Planning and Construction  
Federal Award Year(s): 2015 – 2018  
Category of Finding: Procurement, Suspension, and Debarment  
Type of Finding: Significant Deficiency and Instance of Noncompliance

**Criteria or Specific Requirement**

Title 2 CFR, Subpart B—General Provisions, Section 200.110(a) states that for the procurement standards in Sections 200.317 through 200.326, non-Federal entities may continue to comply with the procurement standards in previous OMB guidance (as reflected in Section 200.104) for a total of three fiscal years after the Uniform Guidance goes into effect. As such, the effective date for implementation of the procurement standards for non-Federal entities will start for fiscal years beginning on or after December 26, 2017. If a non-Federal entity chooses to use the previous procurement standards for all or part of these three fiscal years before adopting the procurement standards in this part, the non-Federal entity must document this decision in its internal procurement policies.

**Condition**

As part of our audit testing, we examined the procurement policy of the City and compared it to the standards of procurement described in the Uniform Guidance. We noted that the City has not updated its procurement policy to comply with the Uniform Guidance standards, and that no documentation of the City's decision to take advantage of the grace period offered by OMB for implementation in fiscal year 2018-19, was included in the City's internal procurement policies.

**Cause of Condition**

The City was not aware of this compliance requirement; however, they are not working on updating their Purchasing Policy to be in compliance.

**CITY OF ROSEMEAD, CALIFORNIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**Effect of Condition**

The procurement policy in use by the City at June 30, 2018 does not comply with the requirements of Sections 200.317 through 200.326 of the Uniform Guidance.

**Questioned Costs**

There were no questioned costs identified (\$0).

**Context**

The City has one procurement policy which covers all procurements, including those made with Federal funds.

**Repeat Finding**

This is a new finding for the fiscal year ended June 30, 2018.

**Recommendations**

We recommend that the City update their procurement policy to comply with the standards of procurement included in Sections 200.317 through Section 200.326 of the Uniform Guidance; and that the updated procurement policy should be approved and implemented for fiscal year 2018-19.

**Management's Response and Corrective Action**

The City is in the process of updating our procurement policy be in compliance; the new policy will be approved by June 30, 2019.

**MAYOR:**  
STEVEN LY

**MAYOR PRO TEM:**  
MARGARET CLARK

**COUNCIL MEMBERS:**  
SANDRA ARMENTA  
POLLY LOW  
SEAN DANG



# City of Rosemead

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FAX (626) 307-9218

## **SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

No matters were reported.