

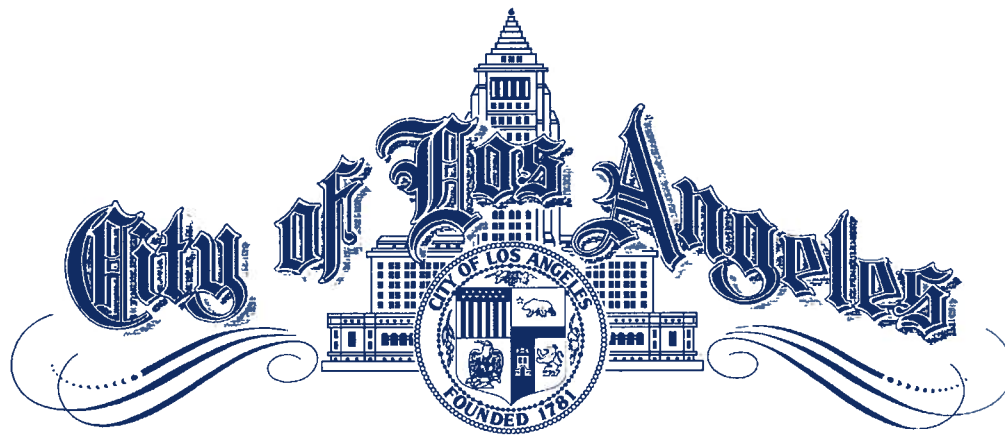
CITY OF LOS ANGELES, CALIFORNIA
SINGLE AUDIT REPORTS
FOR THE YEAR ENDED JUNE 30, 2006

CITY OF LOS ANGELES, CALIFORNIA

**Single Audit Reports
For the Year Ended June 30, 2006**

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CONTROLLER

LAURA N. CHICK
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March 22, 2007

INTRODUCTION TO THE ORGANIZATION OF THE CITY OF LOS ANGELES

Through June 30, 2000, the City of Los Angeles (City) operated under a Charter, approved by the electorate in 1925 as amended, and State laws. On June 8, 1999, the electorate approved the current Charter that became operative on July 1, 2000. Under the old Charter, the City's organizational structure provided for a decentralized operation. The current Charter did not significantly modify this organization structure. To adequately reflect this structure, the City, in accordance with the Single Audit Act, reports as six separate entities for single audit purposes. The six entities include the Mayor and Council-controlled departments (General Government), which provide general government services and five specialized "independent" departments. All six of the entities are responsible for arranging for an annual financial audit. They also arrange for single audits if they receive Federal assistance. The single audit reports are then submitted to the U.S. Bureau of the Census.

The general government services provided for in the City Charter are controlled and funded by the Mayor and the City Council. The Charter also provides that the Departments of Airports, Harbor, and Water and Power "...shall be under the control and management of..." Boards of Commissioners appointed by the Mayor and confirmed by the City Council. The Charter gives these departments control of their own funds or revenue. They establish their own budgets; set their rates, subject to City Council review and approval; sell revenue bonds; and have an annual audit conducted. Two other departments, under the control and management of Boards of Commissioners, have also been established based on provisions of Federal and/or State laws: The Community Redevelopment Agency of the City of Los Angeles (CRA) and the Housing Authority of the City of Los Angeles (Housing Authority).

The City prepares and issues basic financial statements that comply with generally accepted accounting principles (GAAP). For GAAP reporting purposes, the City's reporting entity includes four of the five "independent" departments. The Housing Authority is excluded under the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity."

INTRODUCTION TO THE ORGANIZATION OF THE
CITY OF LOS ANGELES

March 22, 2007

Page 2

The General Government's auditor performs financial and single audits of the General Government and the CRA, while the financial and any required single audits of the other entities are performed by their respective auditors. The financial statements of four of the independent departments are combined with those of the General Government to form the City's basic financial statements. This complies with the provisions of the Single Audit Act.

The City's basic financial statements for the fiscal year 2005-2006 are included in the Comprehensive Annual Financial Report (CAFR). The CAFR and the Schedule of Expenditures of Federal Awards (SEFA) with required single audit reports are issued as separate documents. Copies of both the SEFA, with the required Single Audit reports, and the CAFR are submitted to the Federal Audit Clearinghouse, U.S. Bureau of the Census and the State Controller.

The attachment provides a summary of information on each of the six reporting entities of the City. A brief description of the functions of each of these entities is included.

Sincerely,

A handwritten signature in black ink, appearing to read "Laura N. Chick" with a stylized flourish at the end. To the right of the signature, the word "FOR" is written in a smaller, less stylized font.

LAURA N. CHICK
City Controller

Attachment

**ATTACHMENT
STATUS OF THE FISCAL YEAR 2005-2006 SINGLE AUDIT**

1. GENERAL GOVERNMENT

- Responsible for providing for the health, welfare and public safety of the City including police, fire, public works, building inspections and issuance of permits, City planning, libraries and recreation and parks under the authority of the City Charter.
- July 1 to June 30 Fiscal Year
- Fiscal Year 2005-2006 Budget: \$5,985,274,000
- Fiscal Year 2005-2006 Federal Award Expenditures: \$340,073,000
- Fiscal Year 2005-2006 Financial and Single Audits completed
- Federal Cognizant Agency for Audit: Department of Housing and Urban Development
- Auditor: Simpson & Simpson, CPAs

2. DEPARTMENT OF AIRPORTS

- Responsible for the management, supervision and control of the City's airports and airport facilities. Controls its own funds, establishes its own budget and sets rates subject to City Council review. Governed by a Board of Commissioners appointed by the Mayor and confirmed by the City Council.
- July 1 to June 30 Fiscal Year
- Fiscal Year 2005-2006 Budget: \$1,094,261,000
- Fiscal Year 2005-2006 Federal Award Expenditures: \$62,590,000
- Fiscal Year 2005-2006 Financial and Single Audits completed
- Federal Oversight Agency for Audit: Department of Transportation
- Auditor: Macias Gini & O'Connell LLP

**ATTACHMENT
STATUS OF THE FISCAL YEAR 2005-2006 SINGLE AUDIT
(CONTINUED)**

3. COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF LOS ANGELES

- Responsible for removing blight. Established by the City Council in conformance with the California Health and Safety Code (Section 3300 et seq.). Establishes its own budget, which is approved by a Board of Commissioners and by the Mayor and the City Council. Employs personnel not included in the classified Civil Service established by the Charter and participates in the State Public Employees Retirement System.
- July 1 to June 30 Fiscal Year
- Fiscal Year 2005-2006 Budget: \$430,550,000
- Fiscal Year 2005-2006 Federal Award Expenditures: \$15,855,000
- Fiscal Year 2005-2006 Financial and Single Audits completed
- Federal Oversight Agency for Audit: Department of Housing and Urban Development
- Auditor: Simpson & Simpson, CPAs

4. HARBOR DEPARTMENT

- Responsible for the management, supervision and control of the Port of Los Angeles. Operates a pilotage service and engages in leasing of land and production of oil in the Harbor District. Constructs and maintains its own facilities and controls its own funds in accordance with the Charter and State of California Tidelands Trust. Governed by a Board of Commissioners appointed by the Mayor and confirmed by the City Council.
- July 1 to June 30 Fiscal Year
- Fiscal Year 2005-2006 Budget: \$693,545,000
- Fiscal Year 2005-2006 Federal Award Expenditures: \$4,316,000 (Unaudited)
- Fiscal Year 2005-2006 Financial Audit completed and Single Audit in process
- Federal Oversight Agency for Audit: Department of Homeland Security
- Auditor: KPMG LLP

**ATTACHMENT
STATUS OF THE FISCAL YEAR 2005-2006 SINGLE AUDIT
(CONTINUED)**

5. HOUSING AUTHORITY OF THE CITY OF LOS ANGELES

- Responsible for the elimination of unsafe and unsanitary dwelling units in the City to protect the health and safety of the inhabitants and to develop and administer low-rent housing projects within the City limits. Established by the City Council in accordance with the California Health and Safety Code (Section 34200 et seq.) and Section 8 of the Federal Housing Act of 1937. Prepares its own budget for the approval by the Board of Housing Authority Commissioners and forwards it to the U.S. Department of Housing and Urban Development for approval in accordance with Federal guidelines. Employs personnel not included in the classified Civil Service established by the Charter and participates in the State Public Employees Retirement System.
- January 1 to December 31 Fiscal Year
- Fiscal Year 2005 Budget: \$874,986,000
- Fiscal Year 2006 Budget: \$825,942,000
- Fiscal 2005 Federal Award Expenditures: \$678,785,000
- Fiscal 2006 Federal Award Expenditures: \$685,308,000 (Unaudited)
- Fiscal Year 2005 Financial and Single Audits completed
- Fiscal Year 2006 Financial and Single Audits in process
- Federal Cognizant Agency for Audit: Department of Housing and Urban Development
- Auditor: Mayer Hoffman McCann P.C.

**ATTACHMENT
STATUS OF THE FISCAL YEAR 2005-2006 SINGLE AUDIT
(CONTINUED)**

6. DEPARTMENT OF WATER AND POWER

- Responsible for supplying the City and its inhabitants with water and electric energy by constructing, operating and maintaining facilities located throughout the City and Inyo and Mono counties. Governed by a Board of Commissioners appointed by the Mayor and confirmed by the City Council. Controls its own funds, establishes its own budget and sets rates, subject to Council approval.
- July 1 to June 30 Fiscal Year
- Fiscal Year 2005-2006 Budget:
 - \$1,469,200,000 (Water System)
 - \$3,840,891,000 (Power System)
- Fiscal Year 2005-2006 Federal Award Expenditures:
 - \$ 61,631,000 (Water System--Unaudited)
 - \$ 22,033,000 (Power System--Unaudited)
- Fiscal Year 2005-2006 Financial Audit completed and Single Audit in process
- Federal Oversight Agencies for Audit:
 - Environmental Protection Agency (Water System)
 - Department of Homeland Security (Power System)
- Auditor: KPMG LLP



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

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

*The Honorable Members of the City Council
City of Los Angeles, California*

We have audited the basic financial statements of the City of Los Angeles, California (City) as of and for the year ended June 30, 2006 and have issued our report thereon dated December 20, 2006. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 06-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be



reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe that the reportable condition described in item 06-1 is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, the City's management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read 'Simpson & Simpson'.

Los Angeles, California
December 20, 2006



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

*The Honorable Members of the City Council
City of Los Angeles, California*

Compliance

We have audited the compliance of the City of Los Angeles, California (City) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the City Departments of Airports, Harbor, Water and Power, and the Community Redevelopment Agency of the City of Los Angeles, which expended \$62,590,000, \$4,316,000 (unaudited), \$83,664,000 (unaudited), and \$15,855,000 in federal awards, respectively. The Schedule of Expenditures of Federal Awards for the year ended June 30, 2006 and our audit, described below, did not include the operations of these entities because they issue separate reports in accordance with OMB Circular A-133.

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. Our audit does not provide a legal determination on the City's compliance with those requirements.



In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with applicable sections of OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 06-2 and 06-3.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedules of Expenditures of Federal Awards and Selected State Financial Assistance

We have audited the basic financial statements of the City as of and for the year ended June 30, 2006, and have issued our report thereon dated December 20, 2006. Our audit was performed for the purpose of forming an opinion on the basic financial statements. The accompanying Schedules of Expenditures of Federal Awards and Selected State Financial Assistance are presented for purposes of additional analysis as required by OMB Circular A-133 and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



This report is intended solely for the information and use of the City Council, the City's management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, which appears to read 'Simpson : Simpson'.

Los Angeles, California
December 20, 2006

CITY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

<u>FEDERAL GRANTOR/ CITY DEPARTMENT</u>	<u>PASS THROUGH GRANTOR</u>	<u>PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>GRANT/PASS THROUGH NUMBER</u>	<u>EXPENDITURES</u>	<u>SUBRECIPIENTS</u>
<u>DEPARTMENT OF AGRICULTURE</u>						
Recreation and Parks	State of California - Department of Education	Summer Food Service Program for Children	10.559	19-81909V	\$ <u>883,000</u>	\$ <u>--</u>
TOTAL FOR DEPARTMENT OF AGRICULTURE					<u>883,000</u>	<u>--</u>
<u>DEPARTMENT OF COMMERCE</u>						
Mayor	Direct	Grants for Public Works and Economic Development Facilities	11.300	07-19-62011	<u>8,099,000</u>	<u>4,928,000</u>
Mayor	Direct	Minority Business Opportunity Center (MBOC)	11.803	98-20-03001-01 09-10-06001-01	155,000 <u>74,000</u>	-- <u>--</u>
TOTAL FOR DEPARTMENT OF COMMERCE					<u>8,328,000</u>	<u>4,928,000</u>
<u>DEPARTMENT OF DEFENSE</u>						
Police	State of California - Office of Emergency Services	Donations/Loans of Obsolete Department of Defense Property	12.700	Unknown	<u>35,000</u>	<u>--</u>
TOTAL FOR DEPARTMENT OF DEFENSE					<u>35,000</u>	<u>--</u>
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>						
Community Development	Direct	Community Development Block Grants/Entitlement Grants	14.218	B-06-MC-06-0523 & Prior Awards	<u>94,922,000</u>	<u>40,951,000</u>
Housing	Direct	Emergency Shelter Grants Program	14.231	S-03-MC-06-0523 & Prior Awards	<u>3,302,000</u>	<u>3,302,000</u>
Housing	Direct	HOME Investment Partnerships Program	14.239	M05-MC060519 & Prior Awards	<u>34,817,000</u>	<u>--</u>

See accompanying Notes to Schedules of Expenditures of Federal Awards and Selected State Financial Assistance.

CITY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006
(CONTINUED)

FEDERAL GRANTOR/ CITY DEPARTMENT	PASS THROUGH GRANTOR	PROGRAM TITLE	CFDA NUMBER	GRANT/PASS THROUGH NUMBER	EXPENDITURES	SUBRECIPIENTS
Housing	Direct	Housing Opportunities for Persons with AIDS	14.241	CA-H03-0001 CAH06-F005 & Prior Awards	\$ 295,000 11,400,000 <u>11,695,000</u>	\$ 295,000 11,060,000 <u>11,355,000</u>
Community Development	Direct	Community Development Block Grants/ Brownfields Economic Development Initiative	14.246	E95EZ06-0003 B-02-SP-CA-0076 B-98-BD-06-0034 B-98-ED-06-0047 B-98-ED-06-0052	831,000 100,000 589,000 1,500,000 1,115,000 <u>4,135,000</u>	831,000 -- -- 1,500,000 678,000 <u>3,009,000</u>
Community Development	Direct	Community Development Block Grants - Section 108 Loan Guarantees	14.248	B-94-MC-06-0523 B-04-MC-06-0523-A	2,777,000 3,745,000	-- --
Housing	Direct	Community Development Block Grants - Section 108 Loan Guarantees	14.248	B-95-MC-06-0523	20,000 <u>6,542,000</u>	-- --
Housing	Direct	Section 8 Housing Choice Vouchers	14.871	Unknown	2,948,000	--
Housing	Direct	Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	CALHD0013-03	1,411,000	--
Housing	Direct	Lead Outreach Grants	14.904	CALOR0005-03	8,000	--
TOTAL FOR DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					<u>159,780,000</u>	<u>58,617,000</u>
<u>DEPARTMENT OF THE INTERIOR</u>						
Zoo	Greater Los Angles Zoo Association	Cooperative Endangered Species Conservation Fund	15.615	11440-2-G003	7,000	--
TOTAL FOR DEPARTMENT OF THE INTERIOR					<u>7,000</u>	--

See accompanying Notes to Schedules of Expenditures of Federal Awards and Selected State Financial Assistance.

CITY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006
(CONTINUED)

FEDERAL GRANTOR/ CITY DEPARTMENT	PASS THROUGH GRANTOR	PROGRAM TITLE	CFDA NUMBER	GRANT/PASS THROUGH NUMBER	EXPENDITURES	SUBRECIPIENTS
<u>DEPARTMENT OF JUSTICE</u>						
Police	Direct	Services for Trafficking Victims	16.320	2005-VT-BX-0015	\$ 51,000	\$ --
Mayor	Direct	Juvenile Accountability Incentive Block Grants	16.523	2004-JL-FX-0059	741,000	430,000
Mayor	State of California - Board of Corrections	Juvenile Accountability Incentive Block Grants	16.523	CSA-167-05	247,000	235,000
					988,000	665,000
Mayor	Direct	Legal Assistance for Victims	16.524	2003-WE-BX-0035	217,000	45,000
Disability	Direct	Education and Training to End Violence Against and Abuse of Women with Disabilities	16.529	2004-FW-AX-K022	208,000	106,000
Mayor	State of California - Board of Corrections	Juvenile Justice and Delinquency Prevention - Allocation To States	16.540	BDC 326-04 CSA 326-05	380,000 70,000	353,000 66,000
Police	Direct	Juvenile Justice and Delinquency Prevention - Allocation To States	16.540	2004-MC-CX-K004	132,000	--
					582,000	419,000
Mayor	Direct	Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	1999-JS-FX-0003	1,123,000	1,123,000
Community Development	Direct	Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	2004-JL-FX-0001	91,000	91,000
					1,214,000	1,214,000
Mayor	Direct	Gang-Free Schools and Communities - Community-Based Gang Intervention	16.544	2003-MU-FX-K001	126,000	--

See accompanying Notes to Schedules of Expenditures of Federal Awards and Selected State Financial Assistance.

CITY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006
(CONTINUED)

FEDERAL GRANTOR/ CITY DEPARTMENT	PASS THROUGH GRANTOR	PROGRAM TITLE	CFDA NUMBER	GRANT/PASS THROUGH NUMBER	EXPENDITURES	SUBRECIPIENTS
Police	Direct	National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	92R31600	\$ 217,000	\$ --
				PL#10321/HR2519043	241,000	--
				2004-DN-BX-K078	64,000	--
				2004-DN-BX-K226	96,000	--
Police	State of California - Office of Emergency Services	National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	CQ03037250	23,000	--
				CQ033Q7250	42,000	--
				CQ04047250	102,000	--
					<u>785,000</u>	<u>--</u>
City Attorney	State of California - Office of Emergency Services	Crime Victim Assistance	16.575	VW05240190	856,000	--
				VW04230190	25,000	--
				SE-05127250	110,000	--
					<u>991,000</u>	<u>--</u>
Mayor	Direct	Crime Victim Assistance/ Discretionary Grants	16.582	Unknown	<u>2,000</u>	<u>--</u>
City Attorney	State of California - Office of Emergency Services	Violence Against Women Formula Grants	16.588	VV04067250	99,000	--
Police	State of California - Office of Emergency Services	Violence Against Women Formula Grants	16.588	LE05037250	55,000	--
				LE04027250	23,000	--
					<u>177,000</u>	<u>--</u>
Mayor	Direct	Local Law Enforcement Block Grant Program	16.592	2004-LB-BX-1446	605,000	62,000
Community Development	County of Los Angeles	Local Law Enforcement Block Grant Program	16.592	C-109788	<u>116,000</u>	<u>116,000</u>
						<u>721,000</u>

See accompanying Notes to Schedules of Expenditures of Federal Awards and Selected State Financial Assistance.

CITY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006
(CONTINUED)

FEDERAL GRANTOR/ CITY DEPARTMENT	PASS THROUGH GRANTOR	PROGRAM TITLE	CFDA NUMBER	GRANT/PASS THROUGH NUMBER	EXPENDITURES	SUBRECIPIENTS
Police	Direct	Bulletproof Vest Partnership Program	16.607	PL106-517	\$ 256,000	\$ --
City Attorney	Direct	Community Prosecution and Project Safe Neighborhoods	16.609	2002-GP-CX-0024	22,000	--
City Attorney	State of California - Office of Emergency Services	Community Prosecution and Project Safe Neighborhoods	16.609	US05A27250 US03A17250	105,000 27,000	-- --
Mayor	Direct	Community Prosecution and Project Safe Neighborhoods	16.609	2001-DD-BX-0083	14,000	14,000
Police	Direct	Community Prosecution and Project Safe Neighborhoods	16.609	2003-GP-CX-0529	103,000	--
Police	State of California - Office of Emergency Services	Community Prosecution and Project Safe Neighborhoods	16.609	US03P17250	126,000	--
					<u>397,000</u>	<u>14,000</u>
Mayor	Direct	Public Safety Partnership and Community Policing Grants	16.710	2003-CK-WX-K068 2003-HS-WX-K040 2003-UL-WX-0018 2002-CL-WX-0014 98-CL-WX-0211 97-CL-WX-0037 95-UL-WX-0002	13,000 68,000 679,000 315,000 506,000 64,000 5,026,000	-- -- -- -- -- -- --
					<u>6,671,000</u>	<u>--</u>
Police	Direct	Gang Resistance Education and Training	16.737	2004-JV-FX-0103	50,000	--
City Attorney	Direct	Forfeited Assets	16.999	None	88,000	--
Police	Direct	Forfeited Assets	16.999	None	2,215,000	--
					<u>2,303,000</u>	<u>--</u>
TOTAL FOR DEPARTMENT OF JUSTICE					<u>15,739,000</u>	<u>2,641,000</u>

See accompanying Notes to Schedules of Expenditures of Federal Awards and Selected State Financial Assistance.

CITY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006
(CONTINUED)

FEDERAL GRANTOR/ CITY DEPARTMENT	PASS THROUGH GRANTOR	PROGRAM TITLE	CFDA NUMBER	GRANT/PASS THROUGH NUMBER	EXPENDITURES	SUBRECIPIENTS
<u>DEPARTMENT OF LABOR</u>						
Aging	State of California - Department of Aging	Senior Community Service Employment Program	17.235	TV-0506-25	\$ 1,541,000	\$ --
Community Development	State of California - Employment Development Department	Welfare-to-Work Grants to States and Localities	17.253	W965806	(144,000)	(177,000)
Community Development	State of California - Employment Development Department	WIA Adult Program Cluster with CFDA Nos. 17.259 & 17.260	17.258	R485281 R588727 R692478	115,000 358,000 18,353,000	115,000 358,000 13,034,000
					<u>18,826,000</u>	<u>13,507,000</u>
Community Development	State of California - Employment Development Department	WIA Youth Activities Cluster with CFDA Nos. 17.258 & 17.260	17.259	R485281 R588727 R692478 R760326	70,000 19,000 16,688,000 2,505,000	45,000 19,000 12,951,000 -
					<u>19,282,000</u>	<u>13,015,000</u>
Community Development	State of California - Employment Development Department	WIA Dislocated Workers Cluster with CFDA Nos. 17.258 & 17.259	17.260	R588727 R692478	227,000 11,057,000	220,000 6,786,000
					<u>11,284,000</u>	<u>7,006,000</u>
Community Development	State of California - Employment Development Department	WIA Pilots, Demonstrations, and Research Projects	17.261	R692478	114,000	114,000
Community Development	Direct	WIA Pilots, Demonstrations, and Research Projects	17.261	AZ-11316-01-60 HG-14757-05-60	1,000 422,000	1,000 224,000
					<u>537,000</u>	<u>339,000</u>
Community Development	Direct	Youth Opportunity Grants	17.263	AZ-10121-00-60	1,000	21,000

See accompanying Notes to Schedules of Expenditures of Federal Awards and Selected State Financial Assistance.

CITY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006
(CONTINUED)

FEDERAL GRANTOR/ CITY DEPARTMENT	PASS THROUGH GRANTOR	PROGRAM TITLE	CFDA NUMBER	GRANT/PASS THROUGH NUMBER	EXPENDITURES	SUBRECIPIENTS
Community Development	Direct	Disability Employment Policy Development	17.720	E-9-4-3-0108	\$ 831,000	\$ 582,000
TOTAL FOR DEPARTMENT OF LABOR					<u>52,158,000</u>	<u>34,293,000</u>
<u>DEPARTMENT OF TRANSPORTATION</u>						
Public Works/ Transportation	State of California - Department of Transportation	Highway Planning and Construction	20.205	07-5006, STPL 5006, Various	<u>34,461,000</u>	--
Transportation	Metropolitan Transportation Authority	Federal Transit - Capital Investment Grants Cluster with CFDA No. 20.507	20.500	CA 03-0130, C-3138	<u>5,120,000</u>	--
Environmental Affairs	Metropolitan Transportation Authority	Federal Transit - Formula Grants Cluster with CFDA No. 20.500	20.507	LOAP0008257	97,000	--
Transportation	Metropolitan Transportation Authority	Federal Transit - Formula Grants Cluster with CFDA No. 20.500	20.507	CA900081	<u>57,000</u>	--
					<u>154,000</u>	--
Community Development	State of California - Office of Traffic Safety	State and Community Highway Safety	20.600	CB 0404 CB 0603	346,000 129,000	140,000 42,000
Mayor	State of California - Office of Traffic Safety	State and Community Highway Safety	20.600	EM0506	114,000	--
Police	State of California - Office of Traffic Safety	State and Community Highway Safety	20.600	PT0531 AM05147 AL0435	1,931,000 340,000 55,000	-- -- --
Transportation	State of California - Office of Traffic Safety	State and Community Highway Safety	20.600	RS0517 PT0530 PT0428	60,000 1,222,000 46,000	-- -- --
					<u>4,243,000</u>	<u>182,000</u>

See accompanying Notes to Schedules of Expenditures of Federal Awards and Selected State Financial Assistance.

CITY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006
(CONTINUED)

FEDERAL GRANTOR/ CITY DEPARTMENT	PASS THROUGH GRANTOR	PROGRAM TITLE	CFDA NUMBER	GRANT/PASS THROUGH NUMBER	EXPENDITURES	SUBRECIPIENTS
Police	State of California - Office of Traffic Safety	Safety Belt Performance Grants	20.609	IN51933 IN61930	\$ 73,000 75,000	\$ -- --
					<u>148,000</u>	<u>--</u>
					<u>44,126,000</u>	<u>182,000</u>
<u>DEPARTMENT OF THE TREASURY</u>						
Police	Direct	Forfeited Assets	21.999	None	<u>146,000</u>	<u>--</u>
					<u>146,000</u>	<u>--</u>
<u>INSTITUTE OF MUSEUM AND LIBRARY SERVICES</u>						
Library	California State Library	Grants to States	45.310	40-6440 40-6485	361,000 <u>17,000</u>	-- --
					<u>378,000</u>	<u>--</u>
					<u>378,000</u>	<u>--</u>
<u>SMALL BUSINESS ADMINISTRATION</u>						
Community Development	Direct	Special Initiative - Congressional	59.000	SBA-HQ-03-10061	<u>12,000</u>	<u>--</u>
					<u>12,000</u>	<u>--</u>
<u>ENVIRONMENTAL PROTECTION AGENCY</u>						
Public Works	Direct	Water Quality Cooperative Agreements	66.463	CP-96-9006-01	<u>72,000</u>	<u>--</u>
Environmental Affairs	Direct	Brownfields Pilots Cooperative Agreements	66.811	BP-98912501-5	<u>5,000</u>	<u>--</u>
Community Development	Direct	Brownfields Job Training Cooperative Agreements	66.815	JT-97981401-0	<u>26,000</u>	<u>13,000</u>

See accompanying Notes to Schedules of Expenditures of Federal Awards and Selected State Financial Assistance.

CITY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006
(CONTINUED)

FEDERAL GRANTOR/ CITY DEPARTMENT	PASS THROUGH GRANTOR	PROGRAM TITLE	CFDA NUMBER	GRANT/PASS THROUGH NUMBER	EXPENDITURES	SUBRECIPIENTS
Environmental Affairs	Direct	Brownfields Assessment and Cleanup Cooperative Agreements	66.818	BF-96916301-0	\$ 42,000	\$ --
TOTAL FOR ENVIRONMENTAL PROTECTION AGENCY					<u>145,000</u>	<u>13,000</u>
<u>DEPARTMENT OF EDUCATION</u>						
Recreation and Parks	Direct	Fund for the Improvement of Education	84.215	U215K030384	63,000	--
Community Development	Direct	Fund for the Improvement of Education	84.215	U215K050536	<u>46,000</u>	<u>46,000</u>
					<u>109,000</u>	<u>46,000</u>
Community Development	Direct	Community Technology Centers	84.341	V341A040185	<u>275,000</u>	<u>29,000</u>
TOTAL FOR DEPARTMENT OF EDUCATION					<u>384,000</u>	<u>75,000</u>
<u>DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
Aging	State of California - Department of Aging	Special Programs For The Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	AP-0506-25	<u>58,000</u>	<u>58,000</u>
Aging	State of California - Department of Aging	Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042	AP-0506-25	<u>100,000</u>	<u>100,000</u>
Aging	State of California - Department of Aging	Special Programs for the Aging - Title III, Part D - Disease Prevention PART F-DISEASE PREVENTION and Health Promotion Services	93.043	AP-0506-25	<u>246,000</u>	<u>246,000</u>
Aging	State of California - Department of Aging	Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers. Cluster with CFDA Nos. 93.045 & 93.053	93.044	AP-0506-25	<u>3,433,000</u>	<u>2,812,000</u>

See accompanying Notes to Schedules of Expenditures of Federal Awards and Selected State Financial Assistance.

CITY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006
(CONTINUED)

FEDERAL GRANTOR/ CITY DEPARTMENT	PASS THROUGH GRANTOR	PROGRAM TITLE	CFDA NUMBER	GRANT/PASS THROUGH NUMBER	EXPENDITURES	SUBRECIPIENTS
Aging	State of California - Department of Aging	Special Programs for the Aging - Title III, Part C - Nutrition Services. Cluster with CFDA No. 93.044 & 93.053	93.045	AP-0506-25	\$ 5,662,000	\$ 5,180,000
Aging	Direct	Special Programs for the Aging - Titles IV and II - Discretionary Projects	93.048	90AM277902 90AM277903	22,000 59,000	22,000 52,000
					<u>81,000</u>	<u>74,000</u>
Aging	State of California - Department of Aging	National Family Caregiver Support	93.052	AP-0506-25	<u>1,645,000</u>	<u>921,000</u>
Aging	State of California - Department of Aging	Nutrition Services Incentive Program Cluster with CFDA No. 93.044 & 93.045	93.053	AP-0506-25	<u>1,031,000</u>	<u>1,031,000</u>
Community Development	State of California - Department of Community Services and Development	Community Services Block Grant	93.569	05F-4619 06F-4723	5,317,000 <u>2,002,000</u>	4,315,000 <u>1,440,000</u>
					<u>7,319,000</u>	<u>5,755,000</u>
Community Development	County of Los Angeles	Job Opportunities for Low-Income Individuals	93.593	CN 20124	<u>2,154,000</u>	<u>2,128,000</u>
Community Development	County of Los Angeles	Head Start	93.600	C-4674:03:04 C-5226:04:05	(33,000) <u>(7,000)</u>	(33,000) <u>(7,000)</u>
					<u>(40,000)</u>	<u>(40,000)</u>
Aging	State of California - Department of Aging	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	HI-0506-25	<u>120,000</u>	<u>103,000</u>
TOTAL FOR DEPARTMENT OF HEALTH AND HUMAN SERVICES					<u>21,809,000</u>	<u>18,368,000</u>
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>						
Recreation and Parks	Direct	Retired and Senior Volunteer Program	94.002	03SRPCA005	<u>162,000</u>	<u>--</u>
TOTAL FOR CORPORATION FOR NATIONAL AND COMMUNITY SERVICE					<u>162,000</u>	<u>--</u>

See accompanying Notes to Schedules of Expenditures of Federal Awards and Selected State Financial Assistance.

CITY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006
(CONTINUED)

FEDERAL GRANTOR/ CITY DEPARTMENT	PASS THROUGH GRANTOR	PROGRAM TITLE	CFDA NUMBER	GRANT/PASS THROUGH NUMBER	EXPENDITURES	SUBRECIPIENTS
<u>DEPARTMENT OF HOMELAND SECURITY</u>						
Emergency Operations	Los Angeles County Office of Emergency Management	State Domestic Preparedness Equipment Support Program	97.004	2003-167 2003-35	\$ 1,140,000 1,550,000	\$ -- --
					<u>2,690,000</u>	<u>--</u>
Mayor	Direct	Urban Areas Security Initiative	97.008	2003-TU-TX-0005 2004-EU-T3-K008 2005-IP-080-000001	2,322,000 390,000 31,000	-- 177,000 19,000
Mayor	State of California - Office of Homeland Security	Urban Areas Security Initiative	97.008	2003-0023 2004-0014 2005-0015 2004-0045	3,111,000 5,523,000 918,000 1,409,000	1,333,000 1,647,000 189,000 --
					<u>13,704,000</u>	<u>3,365,000</u>
Fire	Direct	National Urban Search and Rescue (US&R) Response System	97.025	EMW-2003-CA-0290 EMW-2004-CA-0370 EMW-2005-CA-0279	80,000 614,000 32,000	-- -- --
					<u>726,000</u>	<u>--</u>
City Administrative Officer	State of California - Office of Emergency Services	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	Unknown	<u>17,754,000</u>	<u>--</u>
Emergency Preparedness	County of Los Angeles- Office of Emergency Management	Emergency Management Performance Grants	97.042	Unknown	<u>188,000</u>	<u>--</u>
Fire	Direct	Assistance to Firefighters Grant	97.044	EMW-2004-FG-10113 EMW-2005-FG-09124	625,000 294,000	-- --
					<u>919,000</u>	<u>--</u>
					<u>35,981,000</u>	<u>3,365,000</u>
					<u>\$ 340,073,000</u>	<u>\$ 122,482,000</u>

See accompanying Notes to Schedules of Expenditures of Federal Awards and Selected State Financial Assistance.

CITY OF LOS ANGELES
 SCHEDULE OF EXPENDITURES OF SELECTED STATE FINANCIAL ASSISTANCE
 YEAR ENDED JUNE 30, 2006

<u>STATE GRANTOR/ CITY DEPARTMENT</u>	<u>PROGRAM TITLE</u>	<u>AGREEMENT NUMBER</u>	<u>EXPENDITURES</u>
STATE OF CALIFORNIA - DEPARTMENT OF JUSTICE			
City Attorney	Spousal Abuser Prosecution Program	05SA12E011	\$ <u>59,000</u>
STATE OF CALIFORNIA - DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL			
Mayor	Operation Alcoholic Beverage Control	05G-LA09	<u>115,000</u>
TOTAL SELECTED STATE FINANCIAL ASSISTANCE			\$ <u><u>174,000</u></u>

See accompanying Notes to Schedules of Expenditures of Federal Awards and Selected State Financial Assistance.

CITY OF LOS ANGELES, CALIFORNIA

Notes to Schedules of Expenditures of Federal Awards and Selected State Financial Assistance For the Year Ended June 30, 2006

1. Reporting Entity for the Single Audit

The City of Los Angeles, California (City) has defined its single audit reporting entity for the purposes of this report, in accordance with the Single Audit Act, as:

“Those Departments and Offices over which the Mayor and the City Council have direct legislative, executive and budgetary control.”

For the purposes of the Schedule of Expenditures of Federal Awards, the reporting entity consists of the following City Departments and Offices:

Aging	Environmental Affairs
Animal Services	Finance
Building and Safety	Fire
City Administrative Officer	General Services
City Attorney	Housing
City Clerk	Human Relations Commission
City Ethics Commission	Information Technology Agency
City Legislative Analyst	Library
Commission for Children, Youth and Their Families	Mayor
Commission on the Status of Women	Neighborhood Empowerment
Community Development	Personnel
Controller	Planning
Convention Center	Police
Council	Public Works
Cultural Affairs	Recreation and Parks
Disability	Transportation
El Pueblo de Los Angeles	Treasurer
Emergency Preparedness	Zoo
Employee Relations Board	

CITY OF LOS ANGELES, CALIFORNIA

**Notes to Schedules of Expenditures of Federal Awards and
Selected State Financial Assistance
For the Year Ended June 30, 2006
(Continued)**

1. Reporting Entity for the Single Audit (Continued)

The Federal award programs administered by the following City Departments and affiliated separate legal entities are not included in the Schedule of Expenditures of Federal Awards but have separate independent single audits:

<u>Departments/Agencies</u>	<u>Federal Single Audit Cognizant/Oversight Agencies</u>	<u>Auditors</u>
Airports	Department of Transportation	Macias Gini & O'Connell LLP
Community Redevelopment Agency of the City of Los Angeles	Department of Housing and Urban Development	Simpson and Simpson, CPAs
Harbor	Department of Transportation	KPMG LLP
Housing Authority of the City of Los Angeles	Department of Housing and Urban Development	Mayer Hoffman McCann P.C.
Water and Power	Environmental Protection Agency (Water System)	KPMG LLP
	Department of Homeland Security (Power System)	

CITY OF LOS ANGELES, CALIFORNIA

**Notes to Schedules of Expenditures of Federal Awards and
Selected State Financial Assistance
For the Year Ended June 30, 2006
(Continued)**

2. Basis of Accounting

- a. The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting. Accordingly, expenditures represent amounts incurred during the fiscal year that Federal grant eligibility requirements are met.
- b. Expenditures reported for the Department of Transportation (CFDA Nos. 20.205 and 20.600) include expenditures incurred in prior fiscal years that became eligible under the grants in the current fiscal year.
- c. Accounting for Federal expenditures for disaster activity is based on actual expenditures incurred for approved Damage Survey Reports (DSRs) including expenditures incurred in prior fiscal years which became eligible under the grant in the current fiscal year.
- d. Programs with deleted CFDA numbers or CFDA numbers that are no longer included in the current CFDA catalog are being retained to report expenditures incurred or to show outstanding loans of those programs.
- e. Two (2) State grants are included in the Schedule of Expenditures of Selected State Financial Assistance because the grantor requires an audit in accordance with the Single Audit Act as amended and OMB Circular A-133.
- f. Expenditures for Welfare-to-Work Grants to States and Localities (CFDA No. 17.253) reflected a credit balance of \$144,000 due to the reversal of prior year subrecipients' accrued expenditures in the amount of \$177,000, offset by \$33,000 current year administrative charges.
- g. Expenditures for Youth Opportunity Grant (CFDA No. 17.263) included current year payments to subrecipients in the amount of \$21,000, offset by \$20,000 reversal of prior year accrued expenditures.
- h. Expenditures for Brownfields Job Training Cooperative Agreements Grant that were reported under CFDA No. 66.607 in prior years are now reported under CFDA No. 66.815.

CITY OF LOS ANGELES, CALIFORNIA

**Notes to Schedules of Expenditures of Federal Awards and
Selected State Financial Assistance
For the Year Ended June 30, 2006
(Continued)**

2. Basis of Accounting (Continued)

- i. Expenditures for Head Start (CFDA No. 93.600) reflected a credit balance of \$40,000 due to an overstatement of expenditures in the prior year that was adjusted in the Financial Status Report. The corresponding subrecipients' expenditures were also adjusted.

3. Major Federal Programs

Under the risk based approach to determine major programs under OMB Circular A-133, major programs of the City may have expenditures as low as \$300,000 if the program is considered to be high risk. Level of risk is determined by the auditor's judgment and guidelines issued by OMB and Federal agencies.

CITY OF LOS ANGELES, CALIFORNIA

**Notes to Schedules of Expenditures of Federal Awards and
Selected State Financial Assistance
For the Year Ended June 30, 2006
(Continued)**

4. Outstanding Loans of Federal Funds

The following schedule presents the amount of outstanding loans by CFDA number as of June 30, 2006:

<u>CFDA No.</u>	<u>Federal Grantor</u>	<u>Administering City Department</u>	<u>Outstanding Balance as of June 30, 2006</u>
14.174	HUD	Housing	\$ <u>4,160,000</u>
14.218	HUD	Community Development	112,232,000
		Housing	<u>310,471,000</u>
		Subtotal for CFDA No. 14.218	<u>422,703,000</u>
14.230	HUD	Housing	<u>7,286,000</u>
14.239	HUD	Housing	<u>304,714,000</u>
14.241	HUD	Housing	<u>6,396,000</u>
14.248	HUD	Community Development	89,026,000
		Housing	<u>49,512,000</u>
		Subtotal for CFDA No. 14.248	<u>138,538,000</u>
93.585	HHS	Community Development	<u>667,000</u>
		Total	\$ <u>884,464,000</u>

The outstanding loan balances shown above do not reflect an allowance for uncollectibles of \$572,213,000. In addition, the outstanding loan balances include \$73,446,000 receivable from the Community Redevelopment Agency, a component unit of the City.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006**

A. Summary of Auditor's Results:

- | | |
|---|---------------------|
| 1. Type of report issued on the financial statements of the City of Los Angeles, California (City): | Unqualified opinion |
| 2. Internal control over financial reporting: | |
| • Material weakness(es) identified? | No |
| • Reportable condition(s) identified that is not considered to be material weaknesses? | Yes |
| 3. Noncompliance material to financial statements noted? | No |
| 4. Federal Awards: | |
| Internal control over major program: | |
| • Material weakness(es) identified? | No |
| • Reportable condition(s) identified that is not considered to be material weaknesses? | None reported |
| 5. Type of report issued on compliance for major program: | Unqualified opinion |
| 6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? | Yes |

CITY OF LOS ANGELES, CALIFORNIA

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006
(Continued)

7. Major programs are identified as follows:

<u>CFDA Number</u>	<u>Program Title</u>
11.300	Grants for Public Works and Economic Development Facilities
14.218	Community Development Block Grants/Entitlement Grants
14.231	Emergency Shelter Grants Program
14.239	HOME Investment Partnerships Program
14.241	Housing Opportunities for Persons with AIDS
14.246	Community Development Block Grants/Brownfields Economic Development Initiative
14.871	Section 8 Housing Choice Vouchers
16.999	Forfeited Assets
20.500	Federal Transit - Capital Investment Grants
20.507	Federal Transit - Formula Grants
20.600	State and Community Highway Safety

8. The dollar threshold used to distinguish between Type A and Type B programs:

\$3,000,000

9. The City qualifies as a low-risk auditee? No

B. Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards:

A reportable condition is reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Prepared in Accordance with *Government Auditing Standards*." The reportable condition is not considered to be a material weakness. See Finding No. 06-1.

C. Findings and Questioned Costs relating to Federal Awards:

Two findings are reported in the "Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133." These findings are not considered to be material weaknesses. See Finding Nos. 06-2 and 06-3.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006
(Continued)**

Finding No. 06-1 – Difficulties Encountered by the City’s Procurement System

Federal Grantor: Not Applicable (N/A)
Pass-through Grantor: N/A
City Department: Department of General Services (GSD)
Fiscal Year: 2005-2006
Program: N/A
CFDA No.: N/A

Condition:

We noted that the City has been experiencing problems with its Supply Management System (SMS) since a system upgrade performed in May 2005. The SMS is the City’s primary procurement system. The problems noted include:

1. Transactions processed in SMS were not properly interfaced with the City’s general ledger, Financial Management Information System (FMIS). Certain transactions affecting pre-encumbrance, encumbrance, and uncommitted balances were rejected and not recorded in FMIS during the daily interface between SMS and FMIS.
2. Errors were noted during the SMS’s budget checking process, which included negative budgets and over-liquidation of purchase orders (POs).
3. A report generated by the SMS used for recording outstanding liability at the fiscal year end was incorrect. Certain liquidated POs and paid vouchers (PVs) were included as outstanding liabilities.

During fiscal year 2006, the Controller’s Office, Information Technology Agency (ITA), and GSD have implemented alternative procedures to mitigate the problems encountered in SMS and the negative impact on the City’s financial statements. Temporary patching programs were also developed to generate the required journal entries for the year-end closing.

GSD, ITA, and the Controller’s Office have been working together to identify problems surrounding SMS and the related interface with FMIS as well as to develop solutions to the problems identified. An outside technology firm has also been engaged to provide technical and professional assistance.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006
(Continued)**

Finding No. 06-1 – Difficulties Encountered by the City’s Procurement System (Continued)

The SMS processes the City’s purchasing, encumbrance, and payment transactions for general supplies. SMS transactions are interfaced daily into the FMIS (City’s general ledger system). The problems indicated above could adversely affect the City’s ability to process and report accurate financial data.

Recommendation:

We recommend that the City’s management expedite its effort to develop solutions to resolve the SMS system problems and deficiencies.

In addition, we suggest that the City’s management perform a comprehensive review of the control procedures surrounding SMS and its interface with FMIS, so that problems and potential misstatements may be identified, corrected, and mitigated.

Management Response:

The City engaged the services of an outside consulting firm to address the problems and deficiencies in the SMS. The consultants’ scope of work includes reconciling data discrepancies between FMIS and SMS. This task will be completed by the end of the 2006-07 fiscal year. In addition, the consultants will assist in the installation of maintenance upgrades, and will perform additional fine-tuning of the system and the existing interface between SMS and FMIS.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006
(Continued)**

Finding No. 06-2 – Financial Status Reports Not Amended

Federal Grantor:	Department of Commerce
Pass-through Grantor:	N/A
City Department:	Mayor's Office
Fiscal Year:	2005-2006
Program:	Disaster Infrastructure Investment Fund
CFDA No.:	11.300

Condition:

During our testing of the Financial Status Reports (Standard Form 269) for the Disaster Infrastructure Investment Fund program, we noted that the current expenditures reported on the Financial Status Reports for the quarters ended December 31, 2005 and March 31, 2006 were not amended to reflect the revised billings to the grantor. We noted that the program expenditures were properly reimbursed by the grantor; therefore, there were no questioned costs.

Criteria:

Section 52 of OMB A-110 states that each Federal awarding agency shall require recipients to use the Financial Status Reports (Standard Form 269 or its equivalent) to report the status of funds.

Questioned Costs:

\$0

Effect:

Differences between Financial Status Reports and billing statements provide misleading information.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006
(Continued)**

Finding No. 06-2 – Financial Status Reports Not Amended (Continued)

Recommendation:

We recommend that the Mayor's Office submit amended Financial Status Reports to the grantor.

Management Response:

Amended Financial Status Reports will be submitted to the grantor by March 23, 2007.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006
(Continued)**

Finding No. 06-3 – Equipment Rates Not Properly Documented

Federal Grantor:	Department of Transportation
Pass-through Grantor:	Los Angeles County Metropolitan Transportation Authority
City Department:	Department of Transportation (LADOT)
Fiscal Year:	2005-2006
Program:	Federal Transit – Capital Investment Grants
CFDA No.:	20.500

Condition:

The supporting documentation for the LADOT's equipment expenditures in the amount of \$32,973, charged to the Federal Transit – Capital Investment Grants program for the year ended June 30, 2006, was not properly documented. Equipment expenditures were calculated based on an equipment rates study that was performed more than two years ago. Written methodology, source of data, and related worksheets were not available for the audit. As a result, the equipment expenditures are unsupported and are considered questioned costs.

Criteria:

Item j of OMB A-87 states that to be allowable under Federal awards, costs must be adequately documented.

Questioned Costs:

\$32,973

Effect:

Unsupported equipment expenditures in the amount of \$32,973 are considered questioned costs.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006
(Continued)**

Finding No. 06-3 – Equipment Rates Not Properly Documented (Continued)

Recommendation:

We recommend that LADOT prepare an annual equipment rates study for the calculation of equipment expenditures. We also recommend that supporting documentation, such as written methodology, source of data, and related worksheets, be maintained for better audit trail.

Management Response:

LADOT will conduct a rate study to recalculate these equipment rates by April 30, 2007. Upon approval, the new rates will be applied to recalculate equipment expenditures related to the program for fiscal year 2005-06. LADOT will either reimburse or bill the grantor for any cost differential.

In the future, LADOT will update these equipment rates and maintain the supporting documentation, written methodology, and other related source data, as recommended.

CITY OF LOS ANGELES, CALIFORNIA

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2006**

Finding No. 04-1 – Inadequate Accounting and Operating Controls in the City's Treasury Department – Material Weakness

Federal Grantor:	Not Applicable (N/A)
Pass-through Grantor:	N/A
City Department:	City Treasury
Fiscal Year:	2003-2004
Program:	N/A
CFDA No.:	N/A

Condition:

During our interim and year end testing, we noted that the City's Treasury Department continued to experience delays in its accounting and reporting processes. In our Audit Observations and Recommendations for fiscal year ended June 30, 2003 and two letters to the City Council dated March 26, 2004 and September 3, 2004, we informed the Council and City's management regarding certain deficiencies involving internal control over cash at the Treasury Department. Despite measures taken by the City to mitigate the conditions identified, the following deficiencies continued to exist.

During the fiscal year 2004, bank reconciliations for the primary operating account and various non-major bank accounts were not prepared on a timely basis. The bank reconciliations were performed by temporary staff that was not familiar with the City's cash and investment transactions. Also, we noted there were reconciling items, which were not resolved timely and resulted in adjustments to the ending cash balance. Bank reconciliations should be performed on a monthly basis and reconciling items should be investigated promptly so that corrective action may be taken to dispose of them. This process will substantially increase control over the City's most liquid asset, cash.

The Treasury Department continues to experience delays in submitting reports on investment valuation and allocation of securities lending collateral to the Controller's Office. This resulted in delays in the audit process and in providing audited investment related information to the proprietary departments that prepare their own financial statements.

Lack of experienced accounting personnel contributes to the delays in the production of reports, schedules, and reconciliations. The current accounting personnel have limited experience with Treasury accounting functions and/or the City's accounting procedures.

CITY OF LOS ANGELES, CALIFORNIA

Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2006
(Continued)

Finding No. 04-1 – Inadequate Accounting and Operating Controls in the City's Treasury Department – Material Weakness (Continued)

Currently, the Cash Control System is the accounting system for the Treasury Department. The Cash Control System records all of the cash transactions that flow through the Treasury Department and provides details of the total cash balance held by the Treasury Department. However, we noted that the Cash Control System is built on a primitive program structure, which is subjected to input and manual errors. During our testing of a summary schedule generated by the Cash Control System, we noted variances that resulted in adjustments.

Due to the above conditions, we performed additional audit procedures on testing the cash balance and interest allocation to provide assurance that cash and investments, and interest revenue, were fairly stated as of and for the year ended June 30, 2004. As a result of the increased assurance from the additional audit procedures and testing, we issued an unqualified opinion on the City's financial statements. We consider this issue to be a material weakness in our report on internal control.

Questioned Costs:

\$0

Recommendation:

The large volume of transactions processed and the significant amount of cash invested by the Treasury Department necessitates that reconciliations of accounts be prepared and reviewed on a timely basis by staff that understands and is familiar with the transactions. The reconciliations of book balances against the balances reported by the City's depository banks update and provide accurate information on the status of the City's cash and investments. Consequently, the City's management will be able to rely upon accurate cash and investment data in making decisions. Furthermore, up-to-date bank reconciliations confirm that effective internal controls are in place over the City's most liquid asset.

We recommend that the Treasury Department perform a process review of the Cash Control System and Interest Allocation System to improve efficiency and accuracy. Also we recommend that all accounting and operational procedures be documented in writing. In addition, staff should be trained and cross-trained on various accounting and operational duties.

CITY OF LOS ANGELES, CALIFORNIA

Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2006
(Continued)

Finding No. 04-1 – Inadequate Accounting and Operating Controls in the City's Treasury Department – Material Weakness (Continued)

Finally, we recommend that a management review be performed on the Treasury Department's accounting functions to assess the following: 1) causes of delays in performing some of its most critical accounting functions; 2) the underlying reasons for staff shortages; 3) the adequacy of existing salary grade position classifications; and 4) excessive personnel turnover. The review should also provide recommended solutions to the conditions mentioned above.

Management's Response:

Prior to July 1, 2003, the accounting function did not report to the Treasury Department. Shortly after the announcement that this function would be transferred to the Treasury Department, many long-term accounting employees made the decision to transfer to other departments. Repeated requests for authorization to replace these employees were made and approval was obtained in April 2004 after the March 26, 2004 letter mentioned above.

Timely Reconciliations

In December 2003, the Treasury Department was permitted to fill some of the positions with temporary agency personnel. Repeated requests were also made for managers to supervise the function. Authorization was received to hire permanent accounting and management staff. At that time, there was a tremendous backlog in bank reconciliations, the most severe of which dated back to September 2002.

From mid-March 2004 to April 26, 2004, the Treasurer, Assistant Treasurer, and Chief Investment Officer were out of the office at various times due to a now resolved litigation matter.

Uniform Commercial Code #3 clearly indicates that the liability for fraudulent items falls on the party that is in the best position to mitigate the risk. When reconciliations are not current, the City cannot show the standard of "ordinary care" and therefore increases its exposure to financial liability. This has been brought to the attention of other departments with citywide staffing responsibilities that impact the Treasury Department, i.e. position approvals. As recently as early March, the Treasury Department was informed that its personnel needs will be evaluated as any other department in this area.

CITY OF LOS ANGELES, CALIFORNIA

Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2006
(Continued)

Finding No. 04-1 – Inadequate Accounting and Operating Controls in the City's Treasury Department – Material Weakness (Continued)

As an example, current practice allocates levels of staffing and management based on a department's size rather than on the potential for financial loss, fraud, etc.

Process Review of Cash Control and Interest Allocation System

Management concurs. A treasury cash management consultant has reviewed the Cash Control System and has indicated that the Treasury Workstation Project should replace the majority of this highly manual and inefficient process. The Departmental Chief Accountant IV, hired in December 2004, has commenced cross-training of and documenting various accounting activities. Further, a review of the Interest Allocation System will be performed. It is anticipated that the Treasury Workstation Project will also improve this process.

Management Review

Management concurs and welcomes this recommendation. The Treasury Department requested this type of audit soon after joining the City in January 2001. This type of review is critical to improve the Treasury Department's operations and to ensure compliance with federal regulations and best practices. While the majority of current policy makers recognize that the existing civil service classifications do not address the unique educational, experience, or skills required for the Treasury Department, there remain city departments that have resisted changing the organizational staffing paradigm that has been used for a number of years. This presents challenges to restructuring the department in a manner consistent with best national practices.

A management review will provide a valuable independent assessment, will highlight the current "best practices" by which the City should operate, and assist the City in becoming a leader in this area rather than perpetuating staffing standards and technology that increase the City's financial risk.

Current Year Status:

The Treasury Department has fully addressed the finding. No similar findings were noted in the 2005-06 audit.

CITY OF LOS ANGELES, CALIFORNIA

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2006
(Continued)**

Finding No. 00-2

Federal Grantor:	Department of Housing and Urban Development (HUD)
Pass-through Grantor:	Direct
City Department:	Community Development Department (CDD)
Fiscal Year:	1999-2000
Program:	Economic Development and Initiative Program
CFDA No.:	14.246

Condition:

The City is responsible for monitoring the Los Angeles Community Development Bank (LACDB), a grant subrecipient, for compliance with the eligibility requirement of the EDI Grant Agreement "Special Contract Condition" clause, which requires that 75% of the EDI grant be used for eligible economic development projects and activities within the Empowerment Zone (EZ). As of June 30, 2000, only 49% of the EDI grant was used for economic development located within the EZ. Additionally, the City is responsible for monitoring compliance with the eligibility requirement for "Public Benefit." As of June 30, 2000, only 1,057 jobs were created or retained, while the agreement required the creation or retention of 1,505 jobs.

Questioned Costs:

\$0

Recommendation:

The City should monitor and work closely with the LACDB to ensure that all requirements of the EDI Grant Agreement are met and should identify and develop appropriate corrective action necessary to achieve program goals.

CITY OF LOS ANGELES, CALIFORNIA

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2006
(Continued)**

Finding No. 00-2 (Continued)

Current Year Status:

In April 2004, the LACDB filed for bankruptcy. Certain EDI funds are being reserved to service the remaining Section 108-related obligation of LACDB to HUD. Currently, a Debtor-in-Possession (DIP) is responsible for the LACDB operations, including winding down and disposing of LACDB assets. The DIP is now in the final steps of winding down the affairs of LACDB and plans to commence the dissolution process in March 2007. The length of the dissolution process is dependent upon approval of the State of California.

Based on a compliance report as of December 31, 2005 certified by a firm of independent certified public accountants, the LACDB reported that borrowers created or retained 4,599 jobs, exceeding the requirement.

The finding was corrected and no longer applicable.

CITY OF LOS ANGELES, CALIFORNIA

Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2006
(Continued)

Finding No. 96-6

Federal Grantor:	Department of Homeland Security/Federal Emergency Management Agency (FEMA)
Pass-through Grantor:	State of California – Office of Emergency Services
City Department:	Office of the City Administrative Officer
Fiscal Year:	1995-96
Program:	Disaster Assistance
CFDA No.:	83.516

Condition:

Disaster Assistance expenditures reported by the Department of Building and Safety (LADBS) were based on estimates rather than actual expenditures, due to the lack of a reliable system that keeps track of actual expenditures in this department.

Questioned Costs:

Amount, if any, is not determinable.

Recommendation:

LADBS should develop and maintain a reliable accounting system that keeps track of actual expenditures incurred on Disaster Assistance projects. This system would enable the department to produce necessary financial reports on a timely basis, and facilitate the monitoring and control of the project costs.

Current Year Status:

LADBS has been working closely with the Controller's Office to implement the City-wide Cost Accounting System (CCAS). The CCAS has been successfully implemented department-wide with exception of the Code Enforcement Bureau. Code Enforcement Inspection System (CEIS) contains LADBS's primary disaster information module. After the implementation of interface between CCAS and CEIS, CEIS will retain the detailed data relating to specific job sites and will pass summary level data to CCAS. It is anticipated the full implementation of CCAS and the interface with CEIS in the Code Enforcement Bureau to be complete by May 2007.