

**CITY OF LOS ANGELES, CALIFORNIA**  
**SINGLE AUDIT REPORTS**  
***FOR THE YEAR ENDED JUNE 30, 2007***

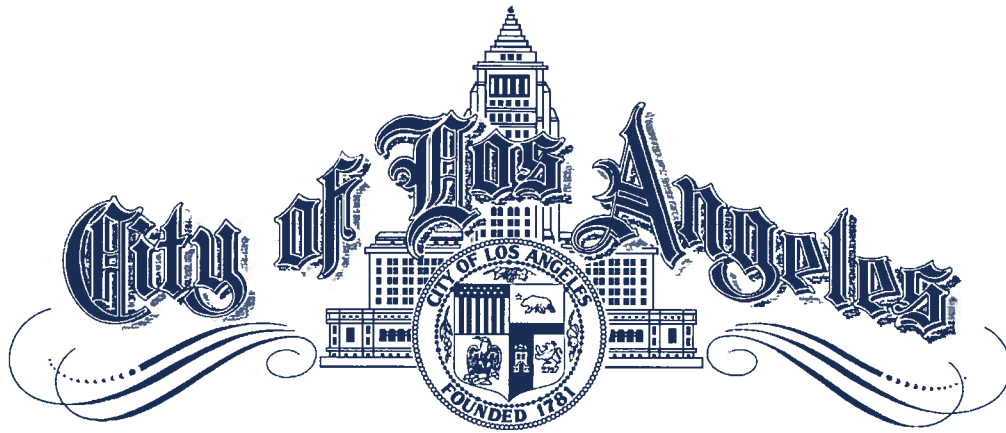
**CITY OF LOS ANGELES, CALIFORNIA**

**Single Audit Reports  
For the Year Ended June 30, 2007**

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March 25, 2008

## **INTRODUCTION TO THE ORGANIZATION OF THE CITY OF LOS ANGELES**

The City of Los Angeles (City) was incorporated in 1850 under the provisions of a City Charter. The current Charter was approved by the electorate on June 8, 1999 and became operative on July 1, 2000. The City's organizational structure provides for a decentralized operation. To reflect this structure, the City, in accordance with the amended 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 independent departments as follows: (1) Department of Airports, (2) Community Redevelopment Agency of the City of Los Angeles, (3) Harbor Department, (4) Housing Authority of the City of Los Angeles, and (5) Department of Water and Power. 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 and submit their single audit reports 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 and 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. The 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 a Comprehensive Annual Financial Report (CAFR) that contains the basic financial statements. The CAFR is prepared in conformity with generally accepted accounting principles (GAAP) for state and local governments. For GAAP reporting purposes, the City's reporting entity includes four of the five independent departments. The Housing Authority is fiscally independent of the City and therefore excluded in the City's reporting entity. The CRA is included in the reporting entity as a discretely presented component unit.

**INTRODUCTION TO THE ORGANIZATION OF THE  
CITY OF LOS ANGELES**

March 25, 2008

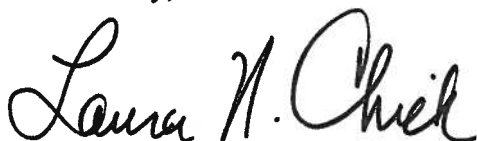
Page 2

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 City's CAFR (which includes the basic financial statements) and the Schedule of Expenditures of Federal Awards (SEFA) with required single audit reports for the fiscal year ended June 30, 2007 are issued as separate documents. Copies of both the CAFR and the SEFA, with the required single audit reports, 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 single audit 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 that reads "Laura N. Chick". The signature is written in a cursive, flowing style.

LAURA N. CHICK  
City Controller

Attachment

**ATTACHMENT  
STATUS OF THE FISCAL YEAR 2006-2007 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 2006-2007 Budget: \$6,673,215,000
- Fiscal Year 2006-2007 Federal Award Expenditures: \$388,281,000
- Fiscal Year 2006-2007 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 2006-2007 Budget: \$1,204,957,000
- Fiscal Year 2006-2007 Federal Award Expenditures: \$82,088,000 (Unaudited)
- Fiscal Year 2006-2007 Financial Audit completed and Single Audit in process
- Federal Cognizant Agency for Audit: Department of Transportation
- Auditor: Macias Gini & O'Connell LLP

**ATTACHMENT  
STATUS OF THE FISCAL YEAR 2006-2007 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 2006-2007 Budget: \$439,296,000
- Fiscal Year 2006-2007 Federal Award Expenditures: \$19,736,000
- Fiscal Year 2006-2007 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 2006-2007 Budget: \$848,484,000
- Fiscal Year 2006-2007 Federal Award Expenditures: \$10,681,000
- Fiscal Year 2006-2007 Financial and Single Audit completed
- Federal Oversight Agency for Audit: Department of Homeland Security
- Auditor: Macias Gini & O'Connell LLP

**ATTACHMENT  
STATUS OF THE FISCAL YEAR 2006-2007 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 2006 Budget: \$825,942,000
- Fiscal Year 2007 Budget: \$846,193,000
- Fiscal 2006 Federal Award Expenditures: \$689,770,000
- Fiscal 2007 Federal Award Expenditures: \$774,943,000 (Unaudited)
- Fiscal Year 2006 Financial and Single Audits completed
- Fiscal Year 2007 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 2006-2007 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 2006-2007 Budget:
  - \$1,629,688,000 (Water System)
  - \$4,090,126,000 (Power System)
  
- Fiscal Year 2006-2007 Federal Award Expenditures:
  - \$ 43,871,000 (Water System – Unaudited)
  - \$ 11,295,000 (Power System – Unaudited)
  
- Fiscal Year 2006-2007 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



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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 financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Los Angeles, California (City) as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 15, 2008. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of the following City departments, which are reported as enterprise, pension trust, and other postemployment benefits trust funds: Departments of Airports, Harbor, Water and Power, Los Angeles City Employees' Retirement System, Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plan, and Water and Power Employees' Retiree Health Benefits Fund, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.



A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described as item 07-1 in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider item 07-1 to be 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated January 15, 2008.



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The City's response to finding 07-1 identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, the City's management, federal and state 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, appearing to read 'Simpson : Simpson'. The signature is written in a cursive, flowing style.

Los Angeles, California  
January 15, 2008



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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, 2007. 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 \$82,088,000 (unaudited), \$10,681,000, \$55,166,000 (unaudited), and \$19,736,000 in federal awards, respectively. The Schedule of Expenditures of Federal Awards for the year ended June 30, 2007 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.



As described in the items 07-2, 07-3, 07-4, 07-5, 07-8, 07-10, 07-11, 07-12, and 07-13 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding pass-through entity's responsibilities, activities allowed or unallowed, allowable costs/costs principles, cash management, program income, reporting, and special tests and provisions that are applicable to the City's Economic Adjustment Assistance – Economic Development Administration Revolving Loan Fund, Community Development Block Grant, Highway Planning and Construction, State Domestic Preparedness Equipment Support Program, and Urban Areas Security Initiative. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

In our opinion, because of the effects of the noncompliance items 07-2, 07-3, 07-04, and 07-05 related to the Economic Adjustment Assistance – Economic Development Administration Revolving Loan Fund, the City did not comply in all material respects, with the requirements that are applicable to the Economic Adjustment Assistance – Economic Development Administration Revolving Loan Fund.

Also in our opinion, except for the noncompliance items 07-2 , 07-3, 07-4, and 07-5 related to the requirements of the Community Development Block Grant and items 07-8, 07-10, 07-11, 07-12, and 07-13 related to the Highway Planning and Construction Program, State Domestic Preparedness Equipment Support Program, and Urban Areas Security Initiative, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended June 30, 2007. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 07-6, 07-7, 07-9, and 07-14.

#### 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, 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 entity's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than



inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 07-2, 07-3, 07-4, 07-5, 07-8, 07-10, 07-11, 07-12, and 07-13 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 07-2, 07-3, 07-4, 07-5, 07-8, 07-10, 07-11, 07-12, and 07-13 to be material weaknesses.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

Schedules of Expenditures of Federal Awards and Selected State Financial Assistance

We have audited the financial statements of governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2007, and have issued our report thereon dated January 15, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's 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 and state 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, appearing to read 'Simpson : Simpson', with a colon between the two names.

Los Angeles, California

February 29, 2008, except for the section "Schedules of Expenditures of Federal Awards and Selected State Financial Assistance," as to which the date is January 15, 2008

**CITY OF LOS ANGELES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2007**

<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>
<b><u>DEPARTMENT OF AGRICULTURE</u></b>						
Recreation and Parks	State of California - Department of Education	Summer Food Service Program for Children	10.559	19-81909V	\$ <u>1,334,000</u>	\$ <u>--</u>
<b>TOTAL FOR DEPARTMENT OF AGRICULTURE</b>					<u>1,334,000</u>	<u>--</u>
<b><u>DEPARTMENT OF COMMERCE</u></b>						
Mayor	Direct	Grants for Public Works and Economic Development Facilities	11.300	07-19-62011	<u>1,337,000</u>	<u>2,855,000</u>
Mayor	Direct	Economic Adjustment Assistance - Economic Development Administration Revolving Loan Fund	11.307	07-39-02236/03 07-39-02236/04 07-19-03106	N/A N/A N/A	N/A N/A N/A
Mayor	Direct	Minority Business Opportunity Center (MBOC)	11.803	09-10-06001-01	<u>304,000</u>	<u>--</u>
<b>TOTAL FOR DEPARTMENT OF COMMERCE</b>					<u>1,641,000</u>	<u>2,855,000</u>
<b><u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u></b>						
Community Development	Direct	Community Development Block Grants/Entitlement Grants	14.218	B-07-MC-06-0523 & Prior Awards	<u>110,703,000</u>	<u>35,160,000</u>
Housing	Direct	Emergency Shelter Grants Program	14.231	S-07-MC-06-0523 & Prior Awards	<u>3,030,000</u>	<u>3,030,000</u>
Housing	Direct	HOME Investment Partnerships Program	14.239	M07-MC060519 & Prior Awards	<u>61,684,000</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, 2007**  
**(CONTINUED)**

<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>
Housing	Direct	Housing Opportunities for Persons with AIDS	14.241	CA-H03-0036 CAH07-F005 & Prior Awards	\$ 683,000	\$ 683,000
					9,529,000	9,219,000
					<u>10,212,000</u>	<u>9,902,000</u>
Community Development	Direct	Community Development Block Grants/ Brownfields Economic Development Initiative	14.246	E95EZ06-0003 B-98-BD-06-0034	144,000 1,066,000	-- 1,066,000
Recreation and Parks	Direct	Community Development Block Grants/ Brownfields Economic Development Initiative	14.246	B-06-SP-CA-0073 B-05-SP-CA-0748	149,000 72,000	-- --
					<u>1,431,000</u>	<u>1,066,000</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	2,775,000 3,973,000	-- --
Housing	Direct	Community Development Block Grants - Section 108 Loan Guarantees	14.248	B-95-MC-06-0523	20,000	20,000
					<u>6,768,000</u>	<u>20,000</u>
Community Development	Direct	Economic Development Initiative - Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	B-99-SP-CA-0035	500,000	500,000
Housing	Direct	Section 8 Housing Choice Vouchers	14.871	Unknown	340,000	--
Housing	Direct	Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	CALHD0143-05 NYLHD0004-03	852,000 437,000	-- --
					<u>1,289,000</u>	<u>--</u>
Housing	Direct	Lead Outreach Grants	14.904	CALOR0013-05	365,000	--

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, 2007  
(CONTINUED)**

<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>
Housing	Direct	Lead Hazard Reduction Demonstration Grant Program	14.905	CALHB0297-05	\$ 512,000	\$ --
<b>TOTAL FOR DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>					<u>196,834,000</u>	<u>49,678,000</u>
<b><u>DEPARTMENT OF THE INTERIOR</u></b>						
Zoo	Greater Los Angles Zoo Association	Cooperative Endangered Species Conservation Fund	15.615	11440-2-G003	<u>8,000</u>	<u>--</u>
<b>TOTAL FOR DEPARTMENT OF THE INTERIOR</b>					<u>8,000</u>	<u>--</u>
<b><u>DEPARTMENT OF JUSTICE</u></b>						
Police	Direct	Services for Trafficking Victims	16.320	2005-VT-BX-0015	<u>111,000</u>	<u>--</u>
Mayor	Direct	Juvenile Accountability Incentive Block Grants	16.523	2004-JL-FX-0059	<u>197,000</u>	<u>133,000</u>
Mayor	State of California - Board of Corrections	Juvenile Accountability Incentive Block Grants	16.523	CSA-167-06	<u>55,000</u>	<u>54,000</u>
					<u>252,000</u>	<u>187,000</u>
Mayor	Direct	Legal Assistance for Victims	16.524	2003-WE-BX-0035	<u>38,000</u>	<u>--</u>
Disability	Direct	Education and Training to End Violence Against and Abuse of Women with Disabilities	16.529	2004-FW-AX-K022	<u>32,000</u>	<u>--</u>
Mayor	State of California - Board of Corrections	Juvenile Justice and Delinquency Prevention - Allocation To States	16.540	CSA 326-05	<u>353,000</u>	<u>323,000</u>
Police	Direct	Juvenile Justice and Delinquency Prevention - Allocation To States	16.540	2004-MC-CX-K004	<u>150,000</u>	<u>--</u>
					<u>503,000</u>	<u>323,000</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, 2007  
(CONTINUED)**

<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>
Community Development	Direct	Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	2004-JL-FX-0001	\$ (1,000)	\$ (1,000)
Recreation and Parks	Direct	Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	2005-JL-FX-0194	16,000	--
					15,000	(1,000)
Mayor	Direct	Gang-Free Schools and Communities - Community-Based Gang Intervention	16.544	2003-MU-FX-K001	507,000	240,000
Police	Direct	National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	92R31600 PL#10321/HR2519043	261,000 297,000	-- --
					558,000	--
City Attorney	State of California - Office of Emergency Services	Crime Victim Assistance	16.575	VW06250190 SE-06137250	857,000 105,000	-- --
					962,000	--
Mayor	State of California - Office of Emergency Services	Edward Byrne Memorial Formula Grant Program	16.579	DC05187250	850,000	--
Police	State of California - Office of Emergency Services	Violence Against Women Formula Grants	16.588	LE06047250 LE05037250	3,000 18,000	-- --
					21,000	--
Mayor	Direct	Local Law Enforcement Block Grant Program	16.592	2004-LB-BX-1446	23,000	18,000
City Attorney	State of California - Office of Emergency Services	Community Prosecution and Project Safe Neighborhoods	16.609	US05A27250 AG0601A7250	69,000 45,000	-- --

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, 2007  
(CONTINUED)**

<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>
Police	State of California - Office of Emergency Services	Community Prosecution and Project Safe Neighborhoods	16.609	US05P27250	\$ 125,000	\$ --
					239,000	-
Police	Direct	Public Safety Partnership and Community Policing Grants	16.710	2003-CK-WX-K068 2003-HS-WX-K040	(18,000) 157,000	-- --
Police	Direct	Public Safety Partnership And Community Policing Grants	16.710	Unknown 2003-UL-WX-0018 98-CL-WX-0211 97-CL-WX-0037	219,000 5,386,000 (6,000) 13,000	-- -- -- --
					5,751,000	--
Police	Direct	Gang Resistance Education and Training	16.737	2006-JV-FX-0107	233,000	--
Community Development	County of Los Angeles	Edward Byrne Memorial Justice Assistance Grant Program	16.738	C-112483	116,000	116,000
Mayor	Direct	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2005-DJ-BX-0687	3,693,000	3,383,000
					3,809,000	3,499,000
Police	Direct	Forensic DNA Capacity Enhancement Program	16.741	2005-DA-BX-K022 2005-DN-R-099 2004-DN-BX-K078	193,000 120,000 446,000	-- -- --
					759,000	--
Police	State of California - Office of Emergency Services	Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ05057250	47,000	--
Police	Direct	Forensic Casework DNA Backlog Reduction Program	16.743	2005-DN-BX-K065 2004-DN-BX-K226	24,000 564,000	-- --
					588,000	--

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, 2007  
(CONTINUED)**

<b>FEDERAL GRANTOR/ CITY DEPARTMENT</b>	<b>PASS THROUGH GRANTOR</b>	<b>PROGRAM TITLE</b>	<b>CFDA NUMBER</b>	<b>GRANT/PASS THROUGH NUMBER</b>	<b>EXPENDITURES</b>	<b>SUBRECIPIENTS</b>
City Attorney	Direct	Forfeited Assets	16.999	None	\$ 39,000	\$ --
Police	Direct	Forfeited Assets	16.999	None	1,101,000	--
					1,140,000	--
		<b>TOTAL FOR DEPARTMENT OF JUSTICE</b>			<b>16,438,000</b>	<b>4,266,000</b>
<b><u>DEPARTMENT OF LABOR</u></b>						
Aging	State of California- Department of Aging	Senior Community Service Employment Program	17.235	TV-0607-25	1,579,000	--
Community Development	State of California- Employment Development Department	Welfare-to-Work Grants to States and Localities	17.253	W965806	(43,000)	(43,000)
Community Development	State of California- Employment Development Department	WIA Adult Program Cluster with CFDA Nos. 17.259 & 17.260	17.258	R692478 R760326 R661534-01	1,584,000 14,992,000 40,000	1,584,000 9,780,000 -
					16,616,000	11,364,000
Community Development	State of California- Employment Development Department	WIA Youth Activities Cluster with CFDA Nos. 17.258 & 17.260	17.259	R692478 R760326 R865462	48,000 13,086,000 3,891,000	13,000 11,043,000 -
					17,025,000	11,056,000
Community Development	State of California- Employment Development Department	WIA Dislocated Workers Cluster with CFDA Nos. 17.258 & 17.259	17.260	R692478 R760326 R588727	1,762,000 10,064,000 51,000	1,600,000 7,001,000 51,000
					11,877,000	8,652,000
Community Development	State of California- Employment Development Department	WIA Pilots, Demonstrations, and Research Projects	17.261	R692478 R760326	84,000 81,000	80,000 69,000

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, 2007  
(CONTINUED)**

<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>
Community Development	Direct	WIA Pilots, Demonstrations, and Research Projects	17.261	AZ-11316-01-60 HG-14757-05-60	\$ (23,000) 677,000	\$ (24,000) 320,000
					<u>819,000</u>	<u>445,000</u>
Community Development	Direct	Youth Opportunity Grants	17.263	AZ-10121-00-60	<u>50,000</u>	<u>(58,000)</u>
Community Development	Direct	Disability Employment Policy Development	17.720	E-9-4-3-0108	<u>494,000</u>	<u>300,000</u>
<b>TOTAL FOR DEPARTMENT OF LABOR</b>					<u>48,417,000</u>	<u>31,716,000</u>
<b><u>DEPARTMENT OF TRANSPORTATION</u></b>						
Public Works/ Transportation	State of California - Department of Transportation	Highway Planning and Construction	20.205	07-5006, STPL 5006, Various	<u>23,479,000</u>	<u>--</u>
Recreation and Parks	State of California - Department of Parks & Recreation	Recreational Trails Program	20.219	RT-19-013	<u>137,000</u>	<u>--</u>
Environmental Affairs	Metropolitan Transportation Authority	Federal Transit - Formula Grants	20.507	LOAP0008257	41,000	--
Transportation	Metropolitan Transportation Authority	Federal Transit - Formula Grants	20.507	LOA7034	<u>(91,000)</u>	<u>--</u>
					<u>(50,000)</u>	<u>--</u>
Commission for Children, Youth, and Their Families	State of California - Office of Traffic Safety	State and Community Highway Safety	20.600	PS0519	401,000	--
Community Development	State of California - Office of Traffic Safety	State and Community Highway Safety	20.600	CB 0603	440,000	256,000
Mayor	State of California - Office of Traffic Safety	State and Community Highway Safety	20.600	EM0506 AL0716	2,000 30,000	-- --

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, 2007  
(CONTINUED)**

<b>FEDERAL GRANTOR/ CITY DEPARTMENT</b>	<b>PASS THROUGH GRANTOR</b>	<b>PROGRAM TITLE</b>	<b>CFDA NUMBER</b>	<b>GRANT/PASS THROUGH NUMBER</b>	<b>EXPENDITURES</b>	<b>SUBRECIPIENTS</b>
Police	State of California - Office of Traffic Safety	State and Community Highway Safety	20.600	PT0750	\$ 70,000	\$ --
				PT0531	39,000	--
				CT-071925	59,000	--
Transportation	State of California- Office of Traffic Safety	State and Community Highway Safety	20.600	RS0517	14,000	--
				PT0530	276,000	--
				PT0428	26,000	--
				STPLH-5006(463)	107,000	--
					1,464,000	256,000
Police	State of California - Office of Traffic Safety	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	SC071917	229,000	--
<b>TOTAL FOR DEPARTMENT OF TRANSPORTATION</b>					25,259,000	256,000
<b><u>INSTITUTE OF MUSEUM AND LIBRARY SERVICES</u></b>						
Library	California State Library	Grants to States	45.310	40-6692	314,000	--
					27,000	--
					341,000	--
<b>TOTAL FOR INSTITUTE OF MUSEUM AND LIBRARY SERVICES</b>					341,000	--
<b><u>SMALL BUSINESS ADMINISTRATION</u></b>						
Community Development	Direct	Special Initiative - Congressional	59.000	SBAHQ-03-1-0061	91,000	--
<b>TOTAL FOR SMALL BUSINESS ADMINISTRATION</b>					91,000	--
<b><u>ENVIRONMENTAL PROTECTION AGENCY</u></b>						
Public Works	Direct	Construction Grants for Wastewater Treatment Works	66.418	C-06-3015-110	3,483,000	--
					3,471,000	--
					6,954,000	--

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, 2007  
(CONTINUED)**

<b>FEDERAL GRANTOR/ CITY DEPARTMENT</b>	<b>PASS THROUGH GRANTOR</b>	<b>PROGRAM TITLE</b>	<b>CFDA NUMBER</b>	<b>GRANT/PASS THROUGH NUMBER</b>	<b>EXPENDITURES</b>	<b>SUBRECIPIENTS</b>
Public Works	Direct	Water Quality Cooperative Agreements	66.463	CP-96-9006-01	\$ 78,000	\$ --
Environmental Affairs	Direct	Brownfields Assessment and Cleanup Cooperative Agreements	66.818	BF-96916301-0	37,000	--
<b>TOTAL FOR ENVIRONMENTAL PROTECTION AGENCY</b>					<b>7,069,000</b>	<b>--</b>
<b><u>DEPARTMENT OF EDUCATION</u></b>						
Recreation and Parks	Direct	Fund for the Improvement of Education	84.215	U215K030384	79,000	--
Community Development	Direct	Fund for the Improvement of Education	84.215	U215K050536	19,000	19,000
					<b>98,000</b>	<b>19,000</b>
Community Development	Direct	Community Technology Centers	84.341	V341A040185	(21,000)	--
<b>TOTAL FOR DEPARTMENT OF EDUCATION</b>					<b>77,000</b>	<b>19,000</b>
<b><u>DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>						
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-0607-25	56,000	56,000
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-0607-25	112,000	112,000
Aging	State of California - Department of Aging	Special Programs for the Aging - Title III, Part D - Disease Prevention, Part T - Disease Prevention, and Health Promotion Services	93.043	AP-0607-25	243,000	243,000

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, 2007  
(CONTINUED)**

<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>
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 No. 93.045 & 93.053	93.044	AP-0607-25	\$ <u>3,611,000</u>	\$ <u>2,946,000</u>
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-0607-25	<u>5,803,000</u>	<u>5,321,000</u>
Aging	Direct	Special Programs for the Aging - Title IV and Title II - Discretionary Projects	93.048	90AM277903	<u>101,000</u>	<u>101,000</u>
Aging	State of California - Department of Aging	National Family Caregiver Support	93.052	AP-0607-25	<u>1,951,000</u>	<u>1,073,000</u>
Aging	State of California - Department of Aging	Nutrition Services Incentive Program Cluster with CFDA No. 93.044 & 93.045	93.053	AP-0607-25	<u>1,062,000</u>	<u>1,062,000</u>
Community Development	State of California - Department of Community Services and Development	Community Services Block Grant	93.569	06F-4723	<u>6,555,000</u>	<u>5,039,000</u>
Community Development	County of Los Angeles	Job Opportunities for Low-Income Individuals	93.593	CJ 22338 CH 22017 CN 20124	3,000 (1,000) <u>(53,000)</u>	(17,000) (1,000) <u>(53,000)</u>
					<u>(51,000)</u>	<u>(71,000)</u>
Aging	State of California - Department of Aging	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	HI-0607-25	174,000 <u>(85,000)</u>	162,000 <u>(85,000)</u>
					<u>89,000</u>	<u>77,000</u>
<b>TOTAL FOR DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>					<u>19,532,000</u>	<u>15,959,000</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, 2007  
(CONTINUED)**

<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>
<b><u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u></b>						
Recreation and Parks	Direct	Retired and Senior Volunteer Program	94.002	06SRPCA021	\$ 150,000	\$ --
Recreation and Parks	Direct	Retired and Senior Volunteer Program	94.002	03SRPCA005	(4,000)	--
					<u>146,000</u>	<u>--</u>
<b>TOTAL FOR CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</b>					<u>146,000</u>	<u>--</u>
<b><u>DEPARTMENT OF HOMELAND SECURITY</u></b>						
Emergency Management	County of Los Angeles - Office of Emergency Management	State Domestic Preparedness Equipment Support Program	97.004	2003-167 2003-35	275,000 154,000	-- --
Mayor	County of Los Angeles - Office of Emergency Management	State Domestic Preparedness Equipment Support Program	97.004	2004-0045 2005-15	6,651,000 5,533,000	-- --
					<u>12,613,000</u>	<u>--</u>
Mayor	Direct	Urban Areas Security Initiative	97.008	2003-TU-TX-0005 2004-EU-T3-K008	-- 902,000	1,018,000 --
Mayor	State of California- Office of Homeland Security	Urban Areas Security Initiative	97.008	2003-0023 2004-0014 2005-0015	8,295,000 14,510,000 20,436,000	1,413,000 6,918,000 8,362,000
					<u>44,143,000</u>	<u>17,711,000</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 EMW-2006-CA-0195	5,000 156,000 553,000 255,000	-- -- -- --
					<u>969,000</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, 2007  
(CONTINUED)**

<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>
City Administrative Officer	State of California- Office of Emergency Services	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	Unknown	\$ <u>12,752,000</u>	\$ <u>--</u>
Emergency Management	County of Los Angeles - Office of Emergency Management	Emergency Management Performance Grants	97.042	Unknown	<u>293,000</u>	<u>--</u>
Fire	Direct	Assistance to Firefighters Grant	97.044	EMW-2004-FG-10113	123,000	--
				EMW-2005-FG-09124	<u>125,000</u>	<u>--</u>
					<u>248,000</u>	<u>--</u>
Mayor	Direct	Information Analysis Infrastructure Protection (IAIP) Pilot Projects	97.080	2005-IP-080-000001	<u>76,000</u>	<u>--</u>
<b>TOTAL FOR DEPARTMENT OF HOMELAND SECURITY</b>					<u>71,094,000</u>	<u>17,711,000</u>
<b>TOTAL FEDERAL AWARDS</b>					<u>\$ 388,281,000</u>	<u>\$ 122,460,000</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, 2007**

<u>STATE GRANTOR/ CITY DEPARTMENT</u>	<u>PROGRAM TITLE</u>	<u>AGREEMENT NUMBER</u>	<u>EXPENDITURES</u>
<b>STATE OF CALIFORNIA - DEPARTMENT OF JUSTICE</b>			
City Attorney	Spousal Abuser Prosecution Program	06SA13E011	\$ <u>59,000</u>
<b>STATE OF CALIFORNIA - DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL</b>			
Mayor	Operation Alcoholic Beverage Control	06G-LA15	<u>102,000</u>
	<b>TOTAL SELECTED STATE FINANCIAL ASSISTANCE</b>		<b>\$ <u>161,000</u></b>

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, 2007**

**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 Management	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, 2007  
(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 & Simpson, CPAs
Harbor	Department of Homeland Security	Macias Gini & O'Connell 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, 2007 (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. Accounting for Federal expenditures for disaster activity is based on actual expenditures incurred for approved Project Worksheet (formerly Damage Survey Reports) including expenditures incurred in prior fiscal years which became eligible under the grant in the current fiscal year.
- c. Programs with deleted CFDA numbers or CFDA numbers that are no longer included in the current CFDA book are being retained to report expenditures incurred or to show outstanding loans of those programs.
- d. Expenditures reported for the Department of Transportation (CFDA No. 20.205, 20.507, and 20.600) include expenditures incurred in prior fiscal years that become eligible under the grant in the current fiscal year.
- e. Expenditures for Forensic DNA Capacity Enhancement Program (CFDA No. 16.741) under grant no. 2004-DN-BX-K078 and Forensic Casework DNA Backlog Reduction Program (CFDA No. 16.743) under grant no. 2004-DN-BX-k226 were reported in prior year under National Institute of Justice Research, Evaluation, and Development Project Grants (CFDA No. 16.560).
- f. Expenditures for Edward Byrne Memorial Justice Assistance Grant Program were reported under CFDA No. 16.592 in prior year are now reported under CFDA No. 16.738.
- g. Expenditures for Construction Grants for Wastewater Treatment Works (CFDA No. 66.418) under agreement nos. C-06-3015-110 and C-06-3015-120 in the amounts of \$3,483,000 and \$3,471,000, respectively, identified as unallowable in prior year were subsequently reimbursed by the grantor.
- h. Subrecipient expenditures for Grants for Public Works and Economic Development Facilities (CFDA No. 11.300) and Urban Areas Security Initiative (CFDA No. 97.008) included prior year expenditures that were not reported under subrecipient expenditures but only as the City's expenditures.

**CITY OF LOS ANGELES, CALIFORNIA**

**Notes to Schedules of Expenditures of Federal Awards and  
Selected State Financial Assistance  
For the Year Ended June 30, 2007  
(Continued)**

**2. Basis of Accounting (Continued)**

- i. Expenditures for certain grants reflect a credit balance due to the reversal of prior year accrued expenditures, refunds from subrecipients, and unallowed expenditures.
- j. Subrecipient expenditures for certain grants reflect a credit balance due to the reversal of prior year accrued expenditures and refunds from subrecipients.
- k. 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.

**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, 2007  
(Continued)**

**4. Outstanding Loans of Federal Funds**

The following schedule presents the amount of outstanding loans by CFDA number as of June 30, 2007:

CFDA No.	Federal Grantor	<u>Administering City Department</u>	<u>Outstanding Balance as of June 30, 2007</u>
11.307	DOC	Mayor's Office	\$ N/A
14.174	HUD	Housing	<u>4,160,000</u>
14.218	HUD	Community Development Housing	120,374,000 <u>304,490,000</u>
		Subtotal for CFDA No. 14.218	<u>424,864,000</u>
14.230	HUD	Housing	<u>6,886,000</u>
14.239	HUD	Housing	<u>339,762,000</u>
14.241	HUD	Housing	<u>6,519,000</u>
14.248	HUD	Community Development Housing	74,657,000 <u>48,807,000</u>
		Subtotal for CFDA No. 14.248	<u>123,464,000</u>
93.585	HHS	Community Development	<u>167,000</u>
		Total	\$ <u>905,822,000</u>

The outstanding loan balances shown above do not reflect an allowance for uncollectibles of \$571,724,000. In addition, the outstanding loan balances include \$73,373,000 receivable from the Community Redevelopment Agency, a component unit of the City.

**CITY OF LOS ANGELES, CALIFORNIA**

**Notes to Schedules of Expenditures of Federal Awards and  
Selected State Financial Assistance  
For the Year Ended June 30, 2007  
(Continued)**

**5. Contract with Los Angeles LDC, Inc. (CFDA Nos. 11.307 and 14.218)**

The City and the Los Angeles LDC, Inc. (LA LDC), a not-for-profit organization, have entered into an agreement which authorized LA LDC to administer the City's Industrial Commercial Revolving Loan Program (Program). The Program is funded by federal allocations that the City received from the Economic Adjustment Assistance – Economic Development Administration Revolving Loan Fund and Community Development Block Grant. Although the agreement expired on June 30, 2003, LA LDC continues to administer the Program. However, the City has not adequately monitored the Program since the contact expired and the Program has not been included in the recent past in the Schedule of Expenditures of Federal Awards and related notes to Schedule of Expenditures of Federal Awards.

In their “*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 as of and for the Year Ended September 30, 2006*” dated January 24, 2007, LA LDC's independent external auditors opined that LA LDC did not comply in all material respects with requirements regarding special tests and provisions, financial reporting and allowable costs that are applicable to the Economic Adjustment Assistance – Economic Development Administration Revolving Loan Fund and the Community Development Block Grant federal awards. These non-compliances are further discussed in Finding Nos. 07-2, 07-3, 07-4, and 07-5 included in the Schedule of Findings and Questioned Costs.

The City, through the Mayor's Office and the Community Development Department, has engaged the services of a certified public accounting firm (CPA Firm) to help identify and address the conditions reported in the LA LDC's fiscal year 2006 single audit reports. Upon completion of the work by the CPA Firm, the City will take the necessary steps to resolve the issues, including disclosure of appropriate amounts in the June 30, 2008 Schedule of Expenditures of Federal Awards.

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007**

**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? Yes
  - Significant deficiency(ies) identified that are not considered to be material weaknesses? None reported
3. Noncompliance material to financial statements noted? No
4. Federal Awards:  
Internal control over major programs:
  - Material weakness(es) identified? Yes
  - Significant deficiency(ies) identified that is not considered to be material weaknesses? None reported
5. Type of report issued on compliance for major programs:  
  
Unqualified for all major programs except for Community Development Block Grant, Highway Planning and Construction Program, State Domestic Preparedness Equipment Support Program, and Urban Areas Security Initiative, which were qualified and Economic Adjustment Assistance - Economic Development Administration Revolving Loan Fund, which was adverse.
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, 2007  
(Continued)**

7. Major programs are identified as follows:

<u>CFDA Number</u>	<u>Program Title</u>
11.307	Economic Adjustment Assistance – Economic Development Administration Revolving Loan Fund
14.218	Community Development Block Grants/Entitlement Grants
14.248	Community Development Block Grants/Section 108 Loan Guarantees
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants
16.738	Edward Byrne Memorial Justice Assistance Grant Program
16.741	Forensic DNA Capacity Enhancement Program
16.743	Forensic Casework DNA Backlog Reduction Program
17.235	Senior Community Service Employment Program
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.260	WIA Dislocated Workers
20.205	Highway Planning and Construction
66.418	Construction Grants for Wastewater Treatment Works
93.044	Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers
93.045	Special Programs for the Aging-Title III, Part C-Nutrition Services
93.052	National Family Caregiver Support
93.053	Nutrition Services Incentive Program
93.569	Community Services Block Grants
97.004	State Domestic Preparedness Equipment Support Program
97.008	Urban Areas Security Initiative

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

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

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

A significant deficiency 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 significant deficiency is considered to be a material weakness. See Finding No. 07-1.

**C. Findings and Questioned Costs relating to Federal Awards:**

Thirteen 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." See finding nos. 07-2 through 07-14. Of these findings, finding nos. 07-2, 07-3, 07-4, 07-5, 07-8, 07-10, 07-11, 07-12, and 07-13 are considered to be material instances of noncompliance, significant deficiencies, and material weaknesses.

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-1 – Continued Difficulties Encountered by the City’s Procurement System –  
Material Weakness**

Federal Grantor:	Not Applicable (N/A)
Pass-through Grantor:	N/A
City Department:	Department of General Services (GSD)
Fiscal Year:	2006-2007
Program:	N/A
CFDA No.:	N/A

**Criteria:**

According to the Standards for Internal Control in the Federal Government issued by the United States Government Accounting Office, “Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets... Periodic comparison of resources with the recorded accountability should be made to help reduce the risk of errors, fraud, misuse, or unauthorized alteration... Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.”

**Condition:**

The Supply Management System (SMS) is the City’s primary procurement system. SMS processes the City’s purchasing, encumbrance, and payment transactions for general supplies. The SMS transactions are interfaced daily into the Financial Management Information System (FMIS), the City’s general ledger system. We noted that the City continued to experience problems with the SMS since a system upgrade in May 2005.

During our audit for the fiscal year ended June 30, 2007, we noted that the following deficiencies in the procurement system and process:

1. The receipts information was not being input in a timely manner – We noted that the receipts information is not being input by user departments in a timely manner which may result in inaccurate expenditure and encumbrance balances.

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-1 – Continued Difficulties Encountered by the City’s Procurement System –  
Material Weakness (Continued)**

2. The payment voucher (PV) approval process lacked segregation of duties – There are several users at GSD who process PVs and can perform approval function. Also, as a result of the program deficiency, SMS was not able to provide information to identify user who approved PVs.
3. Reconciliation by account balances between SMS and FMIS was not being performed – We noted that the daily reconciliation between SMS and FMIS is being performed on a summary level. Reconciliations by account balances (e.g. pre-cumbrances, encumbrances, accounts payable, and expenditures) are not being performed on a regular basis.
4. There was no internal voucher (IV) reconciliation between SMS and FMIS – We noted that the entries for IVs on the daily SMS-FMIS reconciliation are not supported. IVs record requests for materials and supplies within the City departments. According to GSD, the report used to reconcile IV balances has not been updated since the system upgrade in May 2005.
5. The data was not synchronized among the tables within SMS – We noted that information in a table that interfaces with FMIS was not synchronized with the source tables. Other tables within SMS were also not synchronized. The data inconsistency within SMS may result in misstatements of account balances.
6. Completed purchase orders (POs) were not being properly closed – During our interim work, we noted that thirteen (13) out of forty (40) POs selected for testing should have been closed. In addition, we noted that a PO completed and closed on October 20, 2005 was still listed outstanding. Also, during our audit of the accounts payable balance, we noted that the outstanding liabilities report included liquidated POs and paid PVs that resulted in an audit adjustment of \$4 million.
7. Sequel (SQL) updates were not being properly prepared – We noted that one (1) requisite (RQ), eight (8) POs and one (1) PV have negative balances due to SQL updates not being properly prepared. SQL updates were performed to manually close POs and adjust SMS documents that have created inconsistency among SMS documents.

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-1 – Continued Difficulties Encountered by the City’s Procurement System –  
Material Weakness (Continued)**

During fiscal year 2006-07, the Controller’s Office, Information Technology Agency (ITA), and General Service Department (GSD) implemented procedures to mitigate the problems encountered in SMS and the negative impact on the City’s financial statements. The City contracted an outside consultant to conduct an assessment of the Commitment Control issues and to reconcile pre-encumbrance and encumbrance transactions in SMS and FMIS. In June 2007 as part of the year-end closing process, GSD, ITA, Controller’s Office, and the outside consultant performed a summary reconciliation within the SMS database and between FMIS and SMS. However, the SMS system problems are yet to be resolved.

**Effect:**

The problems identified above have adversely affected the City's ability to authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles.

**Recommendation:**

We recommend that the City’s management expedite its effort to develop solutions to resolve the SMS system problems and other control deficiencies mentioned above. Future SMS upgrades should be fully tested prior to implementation. In addition, we recommend that a reconciliation by account balances (e.g. pre-cumbrances, encumbrances, accounts payable, and expenditures) between SMS and FMIS be performed on a monthly basis. IV balances between SMS and FMIS should also be reconciled monthly.

**Management Response:**

The City of Los Angeles continues to progress addressing the problems associated with processing Supply Management System (SMS) transactions into the Financial Management Information System (FMIS). With the assistance of an outside consulting firm, the Department of General Services (GSD) and the Information Technology Agency (ITA) successfully completed a data reconciliation effort in June 2007. The results of these efforts synchronized the existing data between the two systems.

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-1 – Continued Difficulties Encountered by the City’s Procurement System –  
Material Weakness (Continued)**

GSD, ITA, and the Controller’s Office have been working together to investigate and resolve problems documents when a discrepancy is found at the document level.

Existing IV reports in the SMS has provided incorrect information since the upgrade in May 2005. GSD and ITA staff has been assigned the task of retrofitting the IV report to facilitate the IV reconciliation effort. Once the reports are corrected, GSD staff can resume the daily IV interface reconciliation.

In August 2007, ITA assumed the ownership of the SMS and has partnered with GSD to further improve the SMS. Since that time, the City personnel and the outside consulting firm conducted an evaluation of the most recent version of the SMS software (version 9.0) and tested the Entry Event module. Based on the outcome of this evaluation, the City believes replacing the customized code currently used to transfer financial data between SMS and FMIS with the Entry Event module will strengthen the data integrity in both systems. Currently, staff from ITA, GSD, the Controller’s Office, and the Bureau of Sanitation is working with the outside consulting firm to upgrade the SMS to the most recent version. This upgrade will be completed by July 4, 2008.

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-2 – Noncompliance with the Pass-through Entity’s Responsibilities Requirement – Material Noncompliance and Material Weakness**

Federal Grantors: Department of Commerce and Department of Housing and Urban Development  
Pass-through Grantor: N/A  
City Departments: Mayor’s Office and Community Development Department  
Fiscal Year: 2006-2007  
Programs: Economic Adjustment Assistance – Economic Development Administration Revolving Loan Fund (EDA RLF) and Community Development Block Grant (CDBG)  
CFDA Nos.: 11.307 and 14.218

**Criteria:**

According to OMB Circular A-133, Subpart D, Section 400 (d), “A pass-through entity shall perform the following for the Federal awards it makes:

- (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
- (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- (4) Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.
- (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit reports and ensure that the subrecipient takes appropriate and timely corrective action.
- (6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-2 – Noncompliance with the Pass-through Entity’s Responsibilities Requirement – Material Noncompliance and Material Weakness (Continued)**

- (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.”

**Condition:**

The City entered into an agreement with Los Angeles LDC, Inc. (LA LDC), a not-for-profit organization, to administer the Economic Adjustment Assistance - Economic Development Administration Revolving Loan Fund (EDA RLF). The agreement expired on June 30, 2003. However, LA LDC continued to administer the EDA RLF program. We noted that the City did not (1) monitor the activities of LA LDC to ensure that Federal awards were used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals were achieved; (2) issue a management decision on audit findings within six months after receipt of the LA LDC’s fiscal year 2006 single audit reports and ensure that LA LDC takes appropriate and timely action; and (3) consider whether LA LDC’s audits necessitate an adjustment to the City’s own records. Also, the City did not maintain records of the amount of funds disbursed to LA LDC under the expired agreement.

**Questioned Costs:**

Not determinable.

**Effect:**

The City did not fulfill its responsibility as a pass-through entity; therefore, the City is not in compliance with OMB Circular A-133.

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-2 – Noncompliance with the Pass-through Entity’s Responsibilities Requirement – Material Noncompliance and Material Weakness (Continued)**

**Recommendation:**

The City should issue a management decision on the audit findings within six month after receipt of LA LDC’s fiscal year 2006 single audit reports and consider whether LA LDC’s audits necessitate an adjustment to the City’s own records. The City should also monitor the activities of LA LDC to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Finally, the City should either terminate or re-negotiate the LA LDC’s agreement since the agreement has expired on June 30, 2003.

**Management Response:**

The City, through the Mayor’s Office and the Community Development Department (CDD), has engaged the services of a certified public accounting (CPA) firm to address the conditions reported in the LA LDC’s fiscal year 2006 single audit reports. Upon completion of the work by the CPA firm, The Mayor’s Office and CDD will take the necessary next steps, including making a final decision on the agreement with LA LDC, consistent with audit recommendation.

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-3 – Financial Status Reports and Other Special Reports Not Submitted –  
Material Noncompliance and Material Weakness**

Federal Grantors: Department of Commerce and Department of Housing and Urban  
Development  
Pass-through Grantor: N/A  
City Departments: Mayor's Office and Community Development Department  
Fiscal Year: 2006-2007  
Programs: Economic Adjustment Assistance – Economic Development  
Administration Revolving Loan Fund (EDA RLF) and Community  
Development Block Grant (CDBG)  
CFDA Nos.: 11.307 and 14.218

**Criteria:**

According to 13 CFR Section 307.14(c), RLF recipients electing to use either 50% or more (or more than \$100,000) of RLF income to cover all or part of an RLF's administrative expenses must submit annually a completed Form ED-209I (OMB Control No. 0610-0095), RLF Income and Expense Statement, to the appropriate EDA regional office within ninety (90) days of the end of its fiscal year.

According to Section L Part 4 – Department of Housing and Urban Development of OMB A-133 Compliance Supplement, a recipient of CDBG (CFDA No. 14.218) is subject to report grant activities through CO4PRO3, Activity Summary Report, and CO4PR26, CDBG Financial Summary, in the Integrated Disbursement and Information System (IDIS) (OMB No. 2506-0077).

**Condition:**

We noted that the City did not submit the required Form ED-209S and Form ED-209I to the appropriate EDA regional office within ninety (90) days of the end of its fiscal year. In addition, the City did not report LA LDC's revolving loan activities in the IDIS in accordance with the criteria mentioned above.

**Questioned Costs:**

\$0

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-3 – Financial Status Reports and Other Special Reports Not Submitted –  
Material Noncompliance and Material Weakness (Continued)**

**Effect:**

The City is not in compliance with the reporting requirements of the EDA RLF and CDBG programs.

**Recommendation:**

We recommend that the City submit the delinquent Form ED-209S and Form ED-209I to the Department of Commerce and update the IDIS to include LA LDC's revolving loan activities.

**Management Response:**

The City has engaged the services of a certified public accounting (CPA) firm to establish the activities of the Revolving Loan Fund to enable the City to submit the delinquent Financial Status Reports and IDIS reports.

CITY OF LOS ANGELES, CALIFORNIA

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)

**Finding No. 07-4 – Noncompliance with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles Requirements – Material Noncompliance and Material Weakness**

Federal Grantors: Department of Commerce and Department of Housing and Urban Development  
Pass-through Grantor: N/A  
City Departments: Mayor's Office and Community Development Department  
Fiscal Year: 2006-2007  
Programs: Economic Adjustment Assistance – Economic Development Administration Revolving Loan Fund (EDA RLF) and Community Development Block Grant (CDBG)  
CFDA Nos.: 11.307 and 14.218

Criteria:

According to Part 4 – U.S. Department of Commerce of OMB Circular A-133 Compliance Supplement, "The grant budget and grant agreement will specify the purpose or use of funds which include the following...RLF grants may be made for the establishment or recapitalization of an RLF, usually for business lending, but RLF grants may also be established for public infrastructure lending or other authorized purposes involving lending (42 USC 3149; and 13 CFR § 307.7)."

According to Appendix A, Section (C)(1)(j) of 2 CFR Part 225, *Cost Principles for State, Local, and Indian Tribal Governments*, (OMB Circular A-87) and Appendix A, Section (A)(2) of 2 CFR Part 230, *Cost Principles for Non-Profit Organizations* (OMB Circular A-122), costs must be adequately documented to be allowable under Federal awards.

Condition:

According to the single audit reports of LA LDC for the fiscal year ended September 30, 2006, LA LDC does not allocate or track costs for the EDA RLF Program. LA LDC's independent auditor cannot determine the costs that are directly associated with the EDA RLF Program. As expenses are not tracked by program, it is not possible for LA LDC's independent auditor to determine if LA LDC is in compliance with the activities allowed or unallowed and allowable costs/cost principles requirements of the EDA RLF and CDBG programs.

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-4 – Noncompliance with the Activities Allowed or Unallowed and Allowable Costs/Cost Principles Requirements – Material Noncompliance and Material Weakness (Continued)**

Questioned Costs:

Not determinable.

Effect:

The City's subrecipient is not in compliance with the activities allowed or unallowed and cost principles requirements of the EDA RLF and CDBG programs.

Recommendation:

We recommend that the City issue a management decision on the findings mentioned in the LA LDC's single audit reports and consider the necessity of an adjustment of the City's own records.

Management Response:

The City has engaged the services of an external certified public accounting (CPA) firm to address the findings indicated in the LA LDC's fiscal year 2006 single audit reports. Upon completion of the work by the CPA firm, the City will issue a management decision on the findings to the LA LDC's single audit reports.

CITY OF LOS ANGELES, CALIFORNIA

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)

**Finding No. 07-5 – Noncompliance with the Special Tests and Provisions and the Program  
Income Requirements – Material Noncompliance and Material Weakness**

Federal Grantors: Department of Commerce and Department of Housing and Urban  
Development  
Pass-through Grantor: N/A  
City Departments: Mayor’s Office and Community Development Department  
Fiscal Year: 2006-2007  
Programs: Economic Adjustment Assistance – Economic Development  
Administration Revolving Loan Fund (EDA RLF) and Community  
Development Block Grant (CDBG)  
CFDA Nos.: 11.307 and 14.218

Criteria:

According to OMB Circular A-133 Compliance Supplement, “RLF income includes all interest earned on outstanding loan principal, interest earned on accounts holding idle RLF funds, loan fees and other loan-related earnings (13 CFR Section 307.8)... RLF income may fund administrative expenses, provided the following conditions are met: (1) the RLF income and the administrative expense are earned in the same 12-month reporting period; (2) RLF income that is not used for administrative expenses during the 12-month reporting period must be added to the RLF capital base and made available for lending activities; (3) RLF income cannot be withdrawn from the RLF capital base in a subsequent reporting period for any use other than lending without the prior written consent of EDA; and (4) the recipient completes an RLF Income and Expense Statement (13 CFR Section 307.12(a)).”

According to Section J Part 4 – Department of Housing and Urban Development of OMB A-133 Compliance Supplement, “The grantee must accurately account for any program income generated from the use of CDBG funds and must treat such income as additional CDBG funds which are subject to all program rules (24 CFR Sections 570.426, 570.500, 570.504, and 570.506). Making loans and collecting the payments on those loans can be a significant source of program income for grantees. The use of income derived from loan payments is subject to program requirements. This carries with it the responsibility for grantees to have a loan origination and servicing system in effect which assures that loans are properly authorized, receivables are properly established, earned income is properly recorded and used, and write-offs of uncollectible amounts are properly authorized (24 CFR Sections 570.500, 570.501, 570.504, 570.506, and 570.513).”

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-5 – Noncompliance with the Special Tests and Provisions and the Program  
Income Requirements – Material Noncompliance and Material Weakness (Continued)**

**Condition:**

According to the single audit reports of LA LDC for the fiscal year ended September 30, 2006, LA LDC does not track increases to the RLF base when income exceeds its administrative expenses. LA LDC does not reconcile the administration expenses to the income received.

**Questioned Costs:**

Not determinable.

**Effect:**

The City's subrecipient is not in compliance with the special tests and provisions requirement of the EDA RLF Program and the program income requirement of CDBG program.

**Recommendation:**

We recommend that the City issue a management decision on the findings mentioned in the LA LDC's single audit reports and consider the necessity of an adjustment of the City's own records.

**Management Response:**

The City has engaged the services of a certified public accounting (CPA) firm to address the findings indicated in the LA LDC's fiscal year 2006 single audit reports. Upon the completion of the work by the CPA firm, the City will take appropriate next steps.

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-6 – Inaccurate Information in the Activity Summary Report**

Federal Grantor: Department of Housing Urban Development  
Pass-through Grantor: N/A  
City Department: Community Development Department  
Fiscal Year: 2006-2007  
Program: Community Development Block Grant (CDBG)  
CFDA No.: 14.218

**Criteria:**

According to 24 CFR §91.520 (a) and (b), “Each jurisdiction that has an approved consolidated plan shall annually review and report, in a form prescribed by Department of Housing Urban Development (HUD), on the progress it has made in carrying out its strategic plan and its action plan. The performance report must include a description of the resources made available, the investment of available resources, the geographic distribution and location of investments, the families and persons assisted (including the racial and ethnic status of persons assisted), actions taken to affirmatively further fair housing, and other actions indicated in the strategic plan and the action plan. This performance report shall be submitted to HUD within ninety (90) days after the close of the jurisdiction's program year. For CDBG recipients, the report shall include a description of the use of CDBG funds during the program year and an assessment by the jurisdiction of the relationship of that use to the priorities and specific objectives identified in the plan, giving special attention to the highest priority activities that were identified. This element of the report must specify the nature of and reasons for any changes in its program objectives and indications of how the jurisdiction would change its programs as a result of its experiences. This element of the report also must include the number of extremely low-income, low-income, and moderate-income persons served by each activity where information on income by family size is required to determine the eligibility of the activity.”

**Condition:**

The City is required to report activity performance to HUD annually via the Integrated Disbursement and Information System (IDIS). IDIS will then generate an Activity Summary Report-CO4PRO3. During our testing of the Activity Summary Report for fiscal year 2007, we noted that four (4) out of ten (10) activities selected for testing were reported inaccurately, and sixty-one (61) of eight-hundred-ninety-nine (899) total activities reported were not updated.

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-6 – Inaccurate Information in the Activity Summary Report (Continued)**

Questioned Costs:

\$0

Effect:

Inaccurate reporting of activity performance to HUD will distort the program performance of the City. Also, the City is not in compliance with 24 CFR §91.520 (a) and (b).

Recommendation:

We recommend that the CDD implement procedures to ensure accuracy of the performance report.

Management Response:

As the City's CDBG administrator, one of CDD's responsibilities is to prepare and submit the Consolidated Annual Performance and Evaluation Report (CAPER)/Grantee Performance Report not only for programs operated by CDD but also those operated by other City departments. Meetings and training sessions are conducted on reporting and many other grantor requirements. Despite the training sessions and numerous follow-ups, some City departments either fail to submit within the deadline or submit inaccurate and incomplete data. The statutory deadline for submission to HUD does not provide sufficient time to remedy all reporting inaccuracies. CDD will exert great efforts to input and update accomplishment data into HUD's Integrated Disbursement and Information System (IDIS) during the reporting cycle ending June 2008. CDD will also consider withholding payments from non-responsive departments.

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-7 – Underreporting of Program Income**

Federal Grantor:	Department of Housing Urban Development
Pass-through Grantor:	N/A
City Department:	Community Development Department
Fiscal Year:	2006-2007
Program:	Community Development Block Grant (CDBG)
CFDA No.:	14.218

**Criteria:**

According to 24 CFR §570.504 (a), “The receipt and expenditure of program income as defined in §570.500 (a) shall be recorded as part of financial transaction of the grant program.”

According to 24 CFR §570.504 (b)(2)(ii), “Substantially all other program income shall be disbursed for eligible activities before additional cash withdrawals are made from U.S. Treasury.”

**Condition:**

We noted that the Community Development Department did not report program income in the amount of \$21,235 that was collected by the Housing Department.

**Questioned Costs:**

\$0

**Effect:**

The City did not report program income in the amount of \$21,235 which could be disbursed for eligible activities before additional cash withdrawals. Therefore, the City is not in compliance with 24 CFR §570.504 (a) and (b)(2)(ii).

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-7 – Underreporting of Program Income (Continued)**

**Recommendation:**

We recommend that the Community Development Department record, reconcile, and report program income collected and remitted by the Housing Department.

**Management Response:**

The Community Development Department will work with the Housing Department to ensure that all program income collected be remitted to the Community Development Department.

CITY OF LOS ANGELES, CALIFORNIA

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)

**Finding No. 07-8 – Equipment Rates Schedule Not Updated and Adequately Supported –  
Material Noncompliance and Material Weakness**

Federal Grantor: Department of Transportation  
Pass-through Grantor: California Department of Transportation  
City Department: Public Works  
Fiscal Year: 2006-2007  
Program: Highway Planning and Construction (Federal-Aid Highway  
Program)  
CFDA No.: 20.205

**Criteria:**

According to Appendix A, Section C.1.j. of 2 CFR Part 225, *Cost Principles for State, Local, and Indian Tribal Governments*, (OMB Circular A-87), costs must be adequately documented to be allowable under Federal awards.

**Condition:**

During fiscal year 2007, the Department of Public Works Bureau of Street Services (Bureau) charged equipment expenditures in the amount of \$365,557 to the Highway Planning and Construction Program. These equipment expenditures were calculated based on an outdated equipment rates schedule, which have not been updated since 2001. Also, the written methodology, source of data, and worksheets supporting the rates schedule were not completely available for our audit. Moreover, we noted clerical errors in the worksheets that were provided to us.

We compared the City's equipment rates charged to the Highway Planning and Construction Program to the equipment rates established by the California Transportation Department (Caltrans), and noted that the rates charged by the City were lower; therefore, this finding did not result in any questioned costs.

**Questioned Costs:**

\$0

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-8 – Equipment Rates Schedule Not Updated and Adequately Supported –  
Material Noncompliance and Material Weakness (Continued)**

Effect:

Equipment expenditures charged to the Highway Planning and Construction Program are not adequately supported; therefore, the City is not in compliance with the allowable costs/costs principles requirement. Also, the City could have under-billed equipment expenditures as a result of applying outdated equipment rates.

Recommendation:

We recommend that the Bureau 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. In addition, all calculation worksheets should be reviewed by a supervisor.

Management Response:

The Bureau historically had a position responsible for preparing hourly equipment rates for use in billing outside agencies. While the rates can be billed as an overhead to certain funding agencies, other agencies require that equipment be billed on an hourly rate. In other instances (e.g., lot cleaning work), the charges are placed on the property tax assessment and the charging of equipment directly is the accepted and established method.

Because of staffing shortfalls and operational needs, personnel were no longer available to perform this function. The Bureau is currently developing a new system which will semi-automate the rate calculation process. The Bureau anticipates this project to be completed within six (6) months and will be in effect by the fiscal year 2008-09.

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-9 – Inaccurate Equipment Information on the CDA32 Report**

Federal Grantor: Department of Health and Human Services  
Pass-through Grantor: California Department of Aging (CDA)  
City Department: Department of Aging  
Fiscal Year: 2006-2007  
Program: National Family Caregiver Support  
CFDA No.: 93.052

**Criteria:**

According to Article VII of the Standard Agreement with the CDA, “The Contractor shall record certain information (i.e., date acquired, description, serial number, cost, etc.) when property is acquired and submit to the CDA, annually with the Closeout, a current inventory of property furnished or purchased by the Contractor with funds awarded under the term of the agreement or any predecessor agreement for the same purpose. The Contractor shall use the Report of Project Property Furnished/Purchased with Agreement Funds (CDA 32) to report property to the CDA.”

**Condition:**

During our testing of the CDA 32 Report, we noted that the equipment costs on the report did not agree with the acquisition costs on the supporting purchase orders and invoices.

**Questioned Costs:**

\$0

**Effect:**

The City is not in compliance with the equipment and real property management requirement of the program.

**Recommendation:**

We recommend that actual acquisition costs of property be reported on the CDA-32 Report.

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-9 – Inaccurate Equipment Information on the CDA32 Report (Continued)**

**Management Response:**

The City of Los Angeles Department of Aging (LADOA) agrees with the finding that the operating procedure must be improved and has taken action to make the necessary changes. The LADOA has revised its reporting procedures to ensure that all property purchases with estimated costs above the \$5,000 threshold be verified and properly reported on Form CDA-32 to accurately reflect the actual acquisition costs. This verification will be done regardless if the final cost is below \$5,000. The original difficulty stemmed from staffing shortfalls which impacted the resources available to track purchases above and below the mandated reporting threshold.

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-10 – Noncompliance with the Allowable Costs/Cost Principles Requirement  
– Material Noncompliance and Material Weakness**

Federal Grantor: Department of Homeland Security  
Pass-through Grantor: Office of Emergency Management County of Los Angeles  
City Department: Emergency Management Department (EMD)  
Fiscal Year: 2006-2007  
Program: State Domestic Preparedness Equipment Support Program, also known as State Homeland Security Grant Program (SHSGP)  
CFDA No.: 97.004 (migrated from Department of Justice 16.007)

**Criteria:**

According to Appendix A, Section C.1.j. of 2 CFR Part 225, *Cost Principles for State, Local, and Indian Tribal Governments*, (OMB Circular A-87), costs must be adequately documented to be allowable under Federal awards.

**Condition:**

Since the program's inception through June 30, 2007, the EMD has reported expenditures in the amount of \$6,409,384 to the grantor under the SHSGP 2003 Part 2 program. However, the total expenditures according to the City's accounting records amounted to \$6,307,007. The difference of \$102,377 is not supported, and therefore considered questioned costs.

**Questioned Costs:**

\$102,377

**Effect:**

The City is not in compliance with the allowable costs/costs principles requirement.

**Recommendation:**

We recommend that the EMD reconcile expenditures reported to the grantor against the City's accounting records and maintain supporting documents for expenditures reported. The City should also contact the grantor to resolve the questioned costs.

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-10 – Noncompliance with the Allowable Costs/Cost Principles Requirement  
– Material Noncompliance and Material Weakness (Continued)**

**Management Response:**

The EMD agrees with the finding. EMD billed Los Angeles County Office of Emergency Management, Grant Administrator, for a SHSGP Part II expenditure that had already been reimbursed. The expenditure in question was the partial cost of a command post vehicle purchased for another City department.

EMD prepares to return the additional payment to the County. In August 2007, EMD has established grant tracking procedures which will prevent this situation from recurring.

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-11 – Noncompliance with the Allowable Costs/Cost Principles Requirement  
– Material Noncompliance and Material Weakness**

Federal Grantor: Department of Homeland Security  
Pass-through Grantor: State of California Office of Homeland Security  
City Department: Mayor’s Office  
Fiscal Year: 2006-2007  
Program: Urban Areas Security Initiative (UASI)  
CFDA No.: 97.008

**Criteria:**

According to Appendix B Section 8.h.4. of 2 CFR Part 225, *Cost Principles for State, Local, and Indian Tribal Governments*, (OMB Circular A-87), “Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation.”

**Condition:**

We tested personnel costs in the amount of \$1,175,137 that were charged to two UASI contracts. We noted that certain employees worked on multiple activities or cost objectives. However, personnel costs allocated to the two UASI programs were not supported by personnel activity reports or equivalent documentation.

**Questioned Costs:**

Not determinable.

**Effect:**

The City’s personnel costs distribution is not supported by personnel activity reports or equivalent documentation; therefore, the City is not in compliance with the allowable costs/costs principles requirement.

**Recommendation:**

The Mayor’s Office should ensure that all personnel costs distributed to the Federal award programs be supported by personnel activity reports or equivalent documentation.

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-11 – Noncompliance with the Allowable Costs/Cost Principles Requirement  
– Material Noncompliance and Material Weakness (Continued)**

**Management Response:**

Since the beginning of 2008, the Mayor's Office has ensured that all personnel costs distributed to Federal award programs are properly tracked and supported through the implementation of the D-time system. D-time is a software application by which individual grant-funded employees report hours worked subject to electronic approval by their supervisors. Every pay period, each grant-funded employee is required to enter hours worked on an electronic D-time sheet, thus eliminating the need for paper functional timesheets. Reports generated each pay period detail the time grant-funded employees spend working on each grant. D-time reports summarize staff activities and track cost objectives. The Mayor's office is requiring that grant-funded personnel print copies of D-time reports each pay period and submit those timesheets to a direct supervisor. These reports document all time worked on grant-funded tasks, thereby satisfying all salary-tracking requirements of the grantor.

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-12 – Noncompliance with Cash Management Requirement – Material Noncompliance and Material Weakness**

Federal Grantor: Department of Homeland Security  
 Pass-through Grantors: Office of Emergency Management County of Los Angeles and State of California Office of Homeland Security  
 City Department: Mayor’s Office  
 Fiscal Year: 2006-2007  
 Programs: State Domestic Preparedness Equipment Support Program, also known as State Homeland Security Grant Program (SHSGP), and Urban Areas Security Initiative (UASI)  
 CFDA Nos.: 97.004 and 97.008

**Criteria:**

According to OMB Circular A-133 Compliance Supplement March 2007 Part 3, Section C, “When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. When advance payment procedures are used, recipients must establish similar procedures for sub-recipients.” Also, according to OMB Circular A-133 Compliance Supplement, Part 4, Section (III)(C), “Grantees are permitted to draw down funds up to 120 days prior to expenditure or disbursement, but must place those funds in an interest-bearing account, and the interest earned must be submitted to the U.S. Treasury.”

**Condition:**

We noted that the Mayor’s Office requested reimbursements from the grantor prior to the payments of subrecipients. The following table summarizes the total reimbursements received and expenditures disbursed since the program’s inception through June 30, 2007:

<u>Grant</u>	<u>Cash Received</u>	<u>Cash Disbursed</u>	<u>Difference</u>
SHSGP 04	\$ 8,059,697	6,684,634	\$ 1,375,063
SHSGP 05	5,532,874	5,046,867	486,007
UASI 03	18,769,250	18,196,818	572,432
UASI 04	27,823,160	26,104,890	1,718,270
UASI 05	21,354,741	15,921,375	5,433,366
Total	<u>\$ 81,539,722</u>	<u>\$ 71,954,584</u>	<u>\$ 9,585,138</u>

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-12 – Noncompliance with Cash Management Requirement – Material Noncompliance and Material Weakness (Continued)**

Included in the \$21,354,741 cash received for UASI 05, was \$9 million cash advance received during fiscal year 2006-07. Our audit revealed that \$3 million has not been disbursed to the subrecipients of the Orange Alert Project as of June 30, 2007. The difference between funds received and disbursed was deposited into an interest-bearing account. However, the Mayor's Office has not identified the amount of interest income that should be remitted to the U.S. Treasury.

**Questioned Costs:**

Not determinable.

**Effect:**

The City is not in compliance with the cash management requirement. Interest earned on the unspent grant fund should be remitted to the U.S. Treasury.

**Recommendation:**

We recommend that the Mayor's Office establish procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. The Mayor's Office should also calculate interest earned on the unspent grant fund and submit to the U.S. Treasury.

**Management Response:**

Since the beginning of fiscal year 2007-08, the Mayor's Office has established procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement to the City departments and sub-recipients. The Mayor's Office has decreased the need to continually seek council approval throughout the grant period by working with the City departments and partner cities to determine the necessary authorities and seeking these approvals during the initial City Council acceptance of the grant. We are currently determining all interest earned on the Mayor's Office Fund 47N Grants and anticipate determining the interest amount by the end of fiscal year 2007-08. Once determined, interest will be returned to the grantor.

CITY OF LOS ANGELES, CALIFORNIA

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)

**Finding No. 07-13 – Noncompliance with the Allowable Costs/Cost Principles Requirement  
– Material Noncompliance and Material Weakness**

Federal Grantor: Department of Homeland Security  
Pass-through Grantors: Office of Emergency Management County of Los Angeles and  
State of California Office of Homeland Security  
City Department: Mayor's Office  
Fiscal Year: 2006-2007  
Programs: State Domestic Preparedness Equipment Support Program, also  
known as State Homeland Security Grant Program (SHSGP), and  
Urban Areas Security Initiative (UASI)  
CFDA Nos.: 97.004 and 97.008

Criteria:

According to Appendix A, Section C.1.j. of 2 CFR Part 225, *Cost Principles for State, Local, and Indian Tribal Governments*, (OMB Circular A-87), costs must be adequately documented to be allowable under Federal awards.

Condition:

Since the program's inception through June 30, 2007, the Mayor's Office reported expenditures in the amount of \$52,125,284 to the grantor under the SHSGP and UASI programs as listed below. However, the total expenditures according to the City's accounting records amounted to \$51,507,038. The difference of \$618,246 is not supported, and therefore considered questioned costs.

	<u>Reported</u>	<u>Expenditures</u>	<u>Difference</u>
SHSGP 05	\$ 5,532,874	\$ 5,376,419	\$ 156,455
UASI 03	18,769,250	18,651,128	118,122
UASI 04	<u>27,823,160</u>	<u>27,479,491</u>	<u>343,669</u>
Total	<u>\$ 52,125,284</u>	<u>\$ 51,507,038</u>	<u>\$ 618,246</u>

Questioned Costs:

\$618,246

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-13 – Noncompliance with the Allowable Costs/Cost Principles Requirement  
– Material Noncompliance and Material Weakness (Continued)**

Effect:

The City is not in compliance with the allowable costs/cost principles requirement.

Recommendation:

We recommend that the Major's Office reconcile expenditures reported to the grantor to the City's accounting records and maintain supporting documents for expenditures reported. The City should also contact the grantor to resolve the questioned costs.

Management Response:

The Mayor's Office is currently reconciling all expenditures reported to the grantor with the City's accounting records with an anticipated completion at the end of fiscal year 2007-08. In addition, we are contacting the grantor to determine the process for returning any over reported expenditures.

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-14 – Financial Status Reports Not Submitted Timely**

Federal Grantor:	Department of Homeland Security
Pass-through Grantor:	N/A
City Department:	Mayor's Office
Fiscal Year:	2006-2007
Program:	Urban Areas Security Initiative – Operation Archangel
CFDA No.:	97.008

**Criteria:**

According to 44 CFR § 13.14 (b)(1), *Uniform Administrative requirements for Grants and Cooperative Agreements to State and Local Governments under Federal Emergency Management Agency, Department of Homeland Security*, “Grantees will use Standard Form 269 or 269A, Financial Status Report, to report the status of funds for all nonconstruction grants and for construction grants when required in accordance with paragraph (e)(2)(iii) of this section.”

According to 44 CFR § 13.14 (b)(4), “When reports are required on a quarterly or semiannual basis, they will be due 30 days after the reporting period. When required on an annual basis, they will be due 90 days after the grant year. Final reports will be due 90 days after the expiration or termination of grant support.”

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-14 – Financial Status Reports Not Submitted Timely (Continued)**

**Condition:**

We noted that the City did not submit the Financial Status Reports and progress reports for the Operation Archangel project in a timely manner. The following is a summary of the reporting period, due date, and submission date for the project:

<b><u>Report Period</u></b>	<b><u>Due Date</u></b>	<b><u>Submission Date</u></b>	<b><u>Timely Submission</u></b>
<b>Financial Status Reports:</b>			
7/1/06 – 9/30/06	11/14/06	2/2/07	No
10/1/06 – 12/31/06	2/14/07	2/2/07	Yes
1/1/07 – 3/31/07	5/15/07	10/17/07	No
4/1/07 – 6/30/07	8/14/07	10/17/07	No
<b>Progress Reports:</b>			
1/1/06 – 6/30/06	7/30/06	2/7/07	No
7/1/06 – 12/31/06	1/30/07	10/22/07	No

**Questioned Costs:**

\$0

**Effect:**

The City is not in compliance with the reporting requirements of the Urban Areas Security Initiative – Operation Archangel.

**CITY OF LOS ANGELES, CALIFORNIA**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(Continued)**

**Finding No. 07-14 – Financial Status Reports Not Submitted Timely (Continued)**

**Recommendation:**

We recommend that the City implement procedures to ensure timely submission of the Financial Status Reports and quarterly progress reports.

**Management Response:**

To ensure timely submissions of the required Financial Status Reports and quarterly progress reports, the Mayor's Office has assigned eight employees in the grant and financial units to administer its Federal grants. In addition, there will be monthly meetings with program managers to address reporting and other grant related issues.

**CITY OF LOS ANGELES, CALIFORNIA**

**Summary Schedule of Prior Year's Findings and Questioned Costs  
For the Year Ended June 30, 2007**

**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**

**Summary Schedule of Prior Year's Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(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.

**Current Year Status:**

See Finding 07-1 on page 35 for current year status.

CITY OF LOS ANGELES, CALIFORNIA

Summary Schedule of Prior Year's Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(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**

**Summary Schedule of Prior Year's Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(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.

**Current Year Status:**

The amended Financial Status Reports have been submitted to the grantor. The recommendation has been implemented.

CITY OF LOS ANGELES, CALIFORNIA

Summary Schedule of Prior Year's Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(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**

**Summary Schedule of Prior Year's Findings and Questioned Costs  
For the Year Ended June 30, 2007  
(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.

**Current Year Status:**

LADOT has conducted and approved a rate study to recalculate these equipment rates which will be effective in the fiscal year 2007-08.