

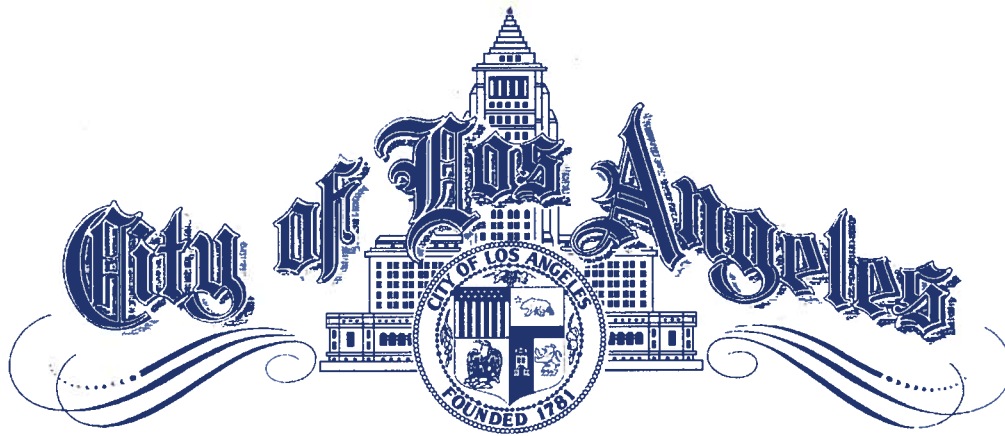
CITY OF LOS ANGELES, CALIFORNIA
SINGLE AUDIT REPORTS
FOR THE YEAR ENDED JUNE 30, 2008

CITY OF LOS ANGELES, CALIFORNIA

**Single Audit Reports
For the Year Ended June 30, 2008**

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OFFICE OF
CONTROLLER

LAURA N. CHICK
CONTROLLER

March 25, 2009

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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, 2009

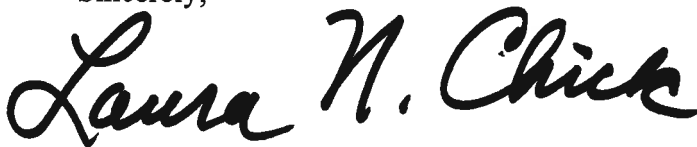
Page 2

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, 2008 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 summary 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 2007-2008 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 2007-2008 Budget: \$6,817,683,000
- Fiscal Year 2007-2008 Federal Award Expenditures: \$493,275,000
- Fiscal Year 2007-2008 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 2007-2008 Budget: \$2,462,428,000
- Fiscal Year 2007-2008 Federal Award Expenditures: \$125,291,000
- Fiscal Year 2007-2008 Financial and Single Audits completed
- Federal Cognizant Agency for Audit: Department of Transportation
- Auditor: Macias Gini & O'Connell LLP

**ATTACHMENT
STATUS OF THE FISCAL YEAR 2007-2008 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 2007-2008 Budget: \$659,454,000
- Fiscal Year 2007-2008 Federal Award Expenditures: \$24,194,000
- Fiscal Year 2007-2008 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. Provides for the needs of commerce, navigation, and fishery for the citizens of California. 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 2007-2008 Budget: \$1,003,224,000
- Fiscal Year 2007-2008 Federal Award Expenditures: \$6,545,000
- Fiscal Year 2007-2008 Financial and Single Audits completed
- Federal Oversight Agency for Audit: Department of Homeland Security
- Auditor: Macias Gini & O'Connell LLP

ATTACHMENT
STATUS OF THE FISCAL YEAR 2007-2008 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 2007 Budget: \$846,193,000
- Fiscal Year 2008 Budget: \$843,686,000
- Fiscal 2007 Federal Award Expenditures: \$775,301,000
- Fiscal 2008 Federal Award Expenditures: \$795,653,000 (Unaudited)
- Fiscal Year 2007 Financial and Single Audits completed
- Fiscal Year 2008 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 2007-2008 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 2007-2008 Budget:
 - \$1,720,865,000 (Water System)
 - \$4,341,215,000 (Power System)
- Fiscal Year 2007-2008 Federal Award Expenditures:
 - \$3,738,000 (Water System - Unaudited)
 - \$4,657,000 (Power System - Unaudited)
- Fiscal Year 2007-2008 Financial Audit completed and Single Audit in process
- Federal Oversight Agencies for Audit:
 - Environmental Protection Agency (Water System)
 - Department of Homeland Security (Power System)
- Auditor: KPMG LLP



SIMPSON & SIMPSON
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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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 30, 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, and Los Angeles City Employees' Retirement System, 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 certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.



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 deficiencies described as items 08-1 through 08-2 in the accompanying schedule of findings and questioned costs to be significant deficiencies 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, of the significant deficiencies described above, we consider item 08-1 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 also noted certain matters that we reported to management of the City in a separate letter dated December 30, 2008.



The City's responses to items 08-1 through 08-2 identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses 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 cursive script, appearing to read 'Simpson : Simpson'. The signature is written in black ink and is positioned above the date and location text.

Los Angeles, California
December 30, 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, 2008. 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 \$125,291,000, \$6,545,000, \$8,395,000 (unaudited), and \$24,194,000 in federal awards, respectively. The Schedule of Expenditures of Federal Awards for the year ended June 30, 2008 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 08-3, 08-4, 08-6, 08-7, 08-8, and 08-9 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding pass-through entity's responsibilities, allowable costs/costs principles, and reporting that are applicable to the City's Public Works and Economic Development Cluster: Grants for Public Works and Economic Development Facilities and Economic Adjustment Assistance (CFDA Nos. 11.300 and 11.307), Community Development Block Grant (CFDA No. 14.218), Lead-Based Paint Hazard Control in Privately-Owned Housing (CFDA No. 14.900), Lead Outreach Grants (CFDA No. 14.904), Lead Hazard Reduction Demonstration Grant Program (CFDA No. 14.905), and Highway Planning and Construction Program (CFDA No. 20.205). 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 08-3 and 08-4 related to the Public Works and Economic Development Cluster: Grants for Public Works and Economic Development Facilities and Economic Adjustment Assistance (CFDA Nos. 11.300 and 11.307), the City did not comply in all material respects, with the requirements that are applicable to the Public Works and Economic Development Cluster: Grants for Public Works and Economic Development Facilities and Economic Adjustment Assistance (CFDA Nos. 11.300 and 11.307).

Also in our opinion, except for the noncompliance items 08-3 and 08-4 related to Community Development Block Grant (CFDA No. 14.218); item 08-6 related to Lead-Based Paint Hazard Control in Privately-Owned Housing (CFDA No. 14.900); item 08-7 related to Lead Outreach Grants (CFDA No. 14.904); item 08-8 related to Lead Hazard Reduction Demonstration Grant Program (CFDA No. 14.905); and item 08-9 related to Highway Planning and Construction Program (CFDA No. 20.205), 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, 2008. 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 08-5, 08-10, and 08-11.

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 08-3, 08-4, 08-6, 08-7, 08-8, and 08-9 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 08-3, 08-4, 08-6, 08-7, 08-8, and 08-9 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, 2008, and have issued our report thereon dated December 30, 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 cursive script, appearing to read 'Simpson : Simpson', is written in black ink.

Los Angeles, California

February 20, 2009, except for the section "Schedules of Expenditures of Federal Awards and Selected State Financial Assistance," as to which the date is December 30, 2008

**CITY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

<u>FEDERAL GRANTOR/ CITY DEPARTMENT</u>	<u>PASS THROUGH GRANTOR</u>	<u>PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>GRANT/PASS THROUGH NUMBER</u>	<u>EXPENDITURES</u>	<u>SUBRECIPIENTS</u>
<u>DEPARTMENT OF AGRICULTURE</u>						
Recreation and Parks	State of California - Department of Education	Summer Food Service Program for Children	10.559	19-81909V	\$ 1,296,000	\$ --
Aging	State of California - Department of Aging	Senior Farmers Market Nutrition Program	10.576	7CA810CA2	128,000	128,000
TOTAL FOR DEPARTMENT OF AGRICULTURE					<u>1,424,000</u>	<u>128,000</u>
<u>DEPARTMENT OF COMMERCE</u>						
Mayor	Direct	Grants for Public Works and Economic Development Facilities Cluster with CFDA No. 11.307	11.300	07-19-62011	279,000	158,000
Mayor	Direct	Economic Adjustment Assistance Cluster with CFDA No. 11.300	11.307	07-39-02236/03 07-39-02236/04 07-19-03106	N/A (Note 5) N/A (Note 5) N/A (Note 5)	N/A (Note 5) N/A (Note 5) N/A (Note 5)
					<u>N/A</u>	<u>N/A</u>
Mayor	Direct	Minority Business Opportunity Center (MBOC)	11.803	09-10-06001-01 09-10-08010-01	183,000 78,000	-- --
TOTAL FOR DEPARTMENT OF COMMERCE					<u>261,000</u>	<u>--</u>
					<u>540,000</u>	<u>158,000</u>
<u>DEPARTMENT OF DEFENSE</u>						
Police	Direct	Donations/Loans of Obsolete Department of Defense (DOD) Property	12.700	Unknown	59,000	--
TOTAL FOR DEPARTMENT OF DEFENSE					<u>59,000</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, 2008
(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>
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>						
Community Development	Direct	Community Development Block Grants/Entitlement Grants	14.218	B-08-MC-06-0523 & Prior Awards B-91-MC-06-0523	\$ 151,750,000 N/A (Note 5)	\$ 54,723,000 N/A (Note 5)
					<u>151,750,000</u>	<u>54,723,000</u>
Housing	Direct	Emergency Shelter Grants Program	14.231	S-08-MC-06-0523 & Prior Awards	<u>4,180,000</u>	<u>4,180,000</u>
Housing	Direct	HOME Investment Partnerships Program	14.239	M08-MC060519 & Prior Awards	<u>78,419,000</u>	<u>--</u>
Housing	Direct	Housing Opportunities for Persons with AIDS	14.241	CA-H03-0036 CA16H08-F074 & Prior Awards	170,000 <u>9,721,000</u>	170,000 <u>9,370,000</u>
					<u>9,891,000</u>	<u>9,540,000</u>
Community Development	Direct	Community Development Block Grants/ Brownfields Economic Development Initiative	14.246	E95EZ06-0003	19,653,000	--
Recreation and Parks	Direct	Community Development Block Grants/ Brownfields Economic Development Initiative	14.246	B-05-SP-CA-0715 B-06-SP-CA-0109	55,000 <u>149,000</u>	-- <u>--</u>
					<u>19,857,000</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, 2008
(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	Community Development Block Grants - Section 108 Loan Guarantees	14.248	B-03-MC-06-0523-E	\$ 27,873,000	\$ --
Housing	Direct	Section 8 Housing Choice Vouchers	14.871	Unknown	231,000	--
Housing	Direct	Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	CALHD0143-05 NYLHD0004-03	1,275,000 (1,000)	-- --
					1,274,000	--
Housing	Direct	Lead Outreach Grants	14.904	CALOR0013-05	124,000	--
Housing	Direct	Lead Hazard Reduction Demonstration Grant Program	14.905	CALHB0297-05	1,314,000	--
TOTAL FOR DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					294,913,000	68,443,000
<u>DEPARTMENT OF THE INTERIOR</u>						
Zoo	Greater Los Angeles Zoo Association	Cooperative Endangered Species Conservation Fund	15.615	11440-2-G003	1,000	--
TOTAL FOR DEPARTMENT OF THE INTERIOR					1,000	--

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, 2008
(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>
<u>DEPARTMENT OF JUSTICE</u>						
Police	Direct	Law Enforcement Assistance - Narcotics and Dangerous Drugs Training	16.004	SE-TNM-0053	\$ 15,000	\$ --
Police	Direct	Alcohol, Tobacco, and Firearms - Training Assistance	16.012	08-LOS-214-AFF	42,000	--
Police	Direct	Law Enforcement Assistance - FBI Advanced Police Training	16.300	66F-HQ-1215549 28IN-LA-229465 305A-LA-C247329	26,000 3,000 4,000	-- -- --
					<u>33,000</u>	<u>--</u>
Police	Direct	Law Enforcement Assistance - Uniform Crime Reports	16.305	SW-CAC-0691	4,000	--
Police	Direct	Services for Trafficking Victims	16.320	2005-VT-BX-0015	164,000	--
Mayor	State of California - Board of Corrections	Juvenile Accountability Block Grants	16.523	CSA-167-05 CSA-167-06 CSA-167-07	1,000 172,000 204,000	-- 162,000 97,000
					<u>377,000</u>	<u>259,000</u>
Mayor	State of California - Board of Corrections	Juvenile Justice and Delinquency Prevention - Allocation To States	16.540	CSA 326-06	432,000	206,000
Police	Direct	Juvenile Justice and Delinquency Prevention - Allocation To States	16.540	2004-MC-CX-K004	140,000	--
					<u>572,000</u>	<u>206,000</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, 2008
(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>
Mayor	Direct	Gang-Free Schools and Communities - Community-Based Gang Intervention	16.544	2003-MU-FX-K001	\$ 476,000	\$ 462,000
Police	Direct	National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	2007-DN-BX-K026 2005-DN-BX-K022 2004-DN-BX-K078 2004-DN-BX-K226 92R31600 PL#103-121/HR2519043	35,000 494,000 11,000 6,000 215,000 345,000	-- -- -- -- -- --
					1,106,000	--
City Attorney	State of California - Office of Emergency Services	Crime Victim Assistance	16.575	VW07260190 SE-07147250	856,000 110,000	-- --
					966,000	--
Mayor	State of California - Office of Emergency Services	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	2006-DD-BX-0352	194,000	94,000
Police	State of California - Office of Emergency Services	Violence Against Women Formula Grants	16.588	LE06047250 LE07057250	102,000 15,000	-- --
					117,000	--
Mayor	Direct	Local Law Enforcement Block Grant Program	16.592	2004-LB-BX-1446	192,000	--

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, 2008
(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	Direct	Corrections - Technical Assistance/ Clearinghouse	16.603	FATF-08-0045 FATF-07-0045	\$ 113,000	\$ --
					81,000	--
					<u>194,000</u>	<u>--</u>
Police	Direct	Bullet Proof Vest Partnership Program	16.607	PL-105-181	<u>788,000</u>	<u>--</u>
City Attorney	State of California - Office of Emergency Services	Community Prosecution and Project Safe Neighborhoods	16.609	US07A37250	22,000	--
Police	State of California - Office of Emergency Services	Community Prosecution and Project Safe Neighborhoods	16.609	US05P27250 US07P37250	24,000	--
					32,000	--
					<u>78,000</u>	<u>--</u>
Police	Direct	Public Safety Partnership and Community Policing Grants	16.710	2003-CK-WX-K068	8,000	--
				2003-HS-WX-K040	135,000	--
				2003-UL-WX-0018	7,191,000	--
				2002-CL-WX-0014	434,000	--
				98-CL-WX-0211	159,000	--
<u>7,927,000</u>	<u>--</u>					
Police	Direct	Gang Resistance Education and Training	16.737	2006-JV-FX-0107	<u>6,000</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, 2008
(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	County of Los Angeles - Probation Department	Edward Byrne Memorial Justice Assistance Grant Program	16.738	C-114072	\$ 116,000	\$ 116,000
Mayor	Direct	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2005-DJ-BX-0687 2006-DJ-BX-0933	1,993,000 3,322,000	1,951,000 3,035,000
					<u>5,431,000</u>	<u>5,102,000</u>
Police	Direct	Forensic DNA Capacity Enhancement Program	16.741	2005-DN-R-099 2006-DN-BX-K162	94,000 50,000	-- --
					<u>144,000</u>	<u>--</u>
Police	State of California - Office of Emergency Services	Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ05057250 CQ07067250	230,000 56,000	-- --
					<u>286,000</u>	<u>--</u>
Police	Direct	Forensic Casework DNA Backlog Reduction Program	16.743	2005-DN-BX-K065 2006-DN-BX-K065	103,000 156,000	-- --
					<u>259,000</u>	<u>--</u>
City Attorney	State of California - Office of Emergency Services	Anti-Gang Initiative	16.744	AG06-1A-7250 AG07-AZ-7250 UL06-B1-7250	91,000 89,000 78,000	-- -- --
Police	State of California - Office of Emergency Services	Anti-Gang Initiative	16.744	AG06-1B-7250	130,000	--
					<u>388,000</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, 2008
(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 Attorney	Direct	Forfeited Assets	16.999	None	\$ 122,000	\$ --
Police	Direct	Forfeited Assets	16.999	None	1,359,000	--
					1,481,000	--
TOTAL FOR DEPARTMENT OF JUSTICE					21,240,000	6,123,000
<u>DEPARTMENT OF LABOR</u>						
Aging	State of California- Department of Aging	Senior Community Service Employment Program	17.235	TV-0708-25	1,802,000	--
Community Development	State of California- Employment Development Department	WIA Adult Program Cluster with CFDA Nos. 17.259 & 17.260	17.258	R760326 R865462	1,041,000 13,816,000	986,000 9,402,000
					14,857,000	10,388,000
Community Development	State of California- Employment Development Department	WIA Youth Activities Cluster with CFDA Nos. 17.258 & 17.260	17.259	R760326 R865462 R970540	365,000 11,006,000 3,710,000	365,000 10,103,000 --
					15,081,000	10,468,000
Community Development	State of California- Employment Development Department	WIA Dislocated Workers Cluster with CFDA Nos. 17.258 & 17.259	17.260	R760326 R865462 R692478	3,272,000 8,360,000 17,000	3,189,000 4,431,000 395,000
					11,649,000	8,015,000

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, 2008
(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	State of California- Employment Development Department	WIA Pilots, Demonstrations, and Research Projects	17.261	R760326 R865462	\$ 32,000 98,000	\$ 32,000 82,000
Community Development	Direct	WIA Pilots, Demonstrations, and Research Projects	17.261	HG-14757-05-60	97,000	102,000
					<u>227,000</u>	<u>216,000</u>
Community Development	Direct	Disability Employment Policy Development	17.720	E-9-4-3-0108	388,000	273,000
TOTAL FOR DEPARTMENT OF LABOR					<u>44,004,000</u>	<u>29,360,000</u>
<u>DEPARTMENT OF TRANSPORTATION</u>						
Public Works/ Transportation	State of California - Department of Transportation	Highway Planning and Construction Program	20.205	07-5006, STPL 5006, & Various	51,141,000	--
Transportation	Direct	Highway Planning and Construction Program	20.205	CA-90-Y252-00	2,521,000	--
					<u>53,662,000</u>	<u>--</u>
Transportation	Direct	Federal Transit - Formula Grants	20.507	CA-95-X020-00 Unknown	630,000 3,950,000	-- --
					<u>4,580,000</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, 2008
(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	State of California - Office of Traffic Safety	State and Community Highway Safety Cluster with CFDA No. 20.601	20.600	CB 0603 OP 0803	\$ 383,000 122,000	\$ 293,000 --
Mayor	State of California- Office of Traffic Safety	State and Community Highway Safety Cluster with CFDA No. 20.601	20.600	AL0716	481,000	428,000
Police	State of California - Office of Traffic Safety	State and Community Highway Safety Cluster with CFDA No. 20.601	20.600	PT0750 CT08239	819,000 23,000	-- --
Transportation	State of California- Office of Traffic Safety	State and Community Highway Safety Cluster with CFDA No. 20.601	20.600	STPLH-5006(463)	92,000	--
					<u>1,920,000</u>	<u>721,000</u>
Police	State of California - Office of Traffic Safety	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants Cluster with CFDA No. 20.600	20.601	SC071917 SC08239	97,000 154,000	-- --
					<u>251,000</u>	<u>--</u>
TOTAL FOR DEPARTMENT OF TRANSPORTATION					<u>60,413,000</u>	<u>721,000</u>
<u>DEPARTMENT OF THE TREASURY</u>						
Police	Direct	Tax Counseling for the Elderly	21.006	0220-04243-0000	19,000	--
TOTAL FOR DEPARTMENT OF THE TREASURY					<u>19,000</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, 2008
(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>
<u>INSTITUTE OF MUSEUM AND LIBRARY SERVICES</u>						
Library	California State Library	Grants to States	45.310	40-6883	\$ 314,000	\$ --
				40-6848	4,000	--
				40-6973	5,000	--
				RE-01-07-0097	55,000	--
					<u>378,000</u>	<u>--</u>
					<u>378,000</u>	<u>--</u>
TOTAL FOR INSTITUTE OF MUSEUM AND LIBRARY SERVICES						
<u>SMALL BUSINESS ADMINISTRATION</u>						
Community Development	Direct	Special Initiative - Congressional	59.000	SBAHQ-03-1-0061	64,000	--
					<u>64,000</u>	<u>--</u>
TOTAL FOR SMALL BUSINESS ADMINISTRATION						
<u>ENVIRONMENTAL PROTECTION AGENCY</u>						
Environmental Affairs	Direct	Brownfields Assessment and Cleanup Cooperative Agreements	66.818	BF-96916301-1 BF-96991501-0	121,000 30,000	-- --
					<u>151,000</u>	<u>--</u>
					<u>151,000</u>	<u>--</u>
TOTAL FOR ENVIRONMENTAL PROTECTION AGENCY						
<u>DEPARTMENT OF EDUCATION</u>						
Community Development	Direct	Fund for the Improvement of Education	84.215	U215K050536	7,000	7,000
					<u>7,000</u>	<u>7,000</u>
TOTAL FOR DEPARTMENT OF EDUCATION						

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, 2008
(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>
<u>DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
Aging	State of California - Department of Aging	Special Programs For The Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	AP-0708-25	\$ <u>59,000</u>	\$ <u>59,000</u>
Aging	State of California - Department of Aging	Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042	AP-0708-25	<u>119,000</u>	<u>119,000</u>
Aging	State of California - Department of Aging	Special Programs for the Aging - Title III, Part D - Disease Prevention Part F - Disease Prevention and Health Promotion Services	93.043	AP-0708-25	<u>244,000</u>	<u>244,000</u>
Aging	State of California - Department of Aging	Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers Cluster with CFDA Nos. 93.045 & 93.053	93.044	AP-0708-25	<u>3,495,000</u>	<u>2,764,000</u>
Aging	State of California - Department of Aging	Special Programs for the Aging - Title III, Part C - Nutrition Services Cluster with CFDA Nos. 93.044 & 93.053	93.045	AP-0708-25	<u>5,947,000</u>	<u>5,461,000</u>
Aging	Direct	Special Programs for the Aging - Title IV and Title II - Discretionary Projects	93.048	90AM277903	<u>52,000</u>	<u>52,000</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, 2008
(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	National Family Caregiver Support Title III, Part E	93.052	AP-0708-25	\$ <u>1,641,000</u>	\$ <u>844,000</u>
Aging	State of California - Department of Aging	Nutrition Services Incentive Program Cluster with CFDA Nos. 93.044 & 93.045	93.053	AP-0708-25	<u>1,044,000</u>	<u>1,044,000</u>
Community Development	State of California - Department of Community Services and Development	Community Services Block Grant	93.569	06F-4723 08F-4922	<u>5,597,000</u> <u>1,472,000</u>	<u>4,503,000</u> <u>1,090,000</u>
					<u>7,069,000</u>	<u>5,593,000</u>
Aging	State of California - Department of Aging	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	HI-0708-25	<u>148,000</u>	<u>137,000</u>
Fire	County of Los Angeles - Department of Health Services	National Bioterrorism Hospital Preparedness Program	93.889	U3RHS05932-01-03	<u>233,000</u>	<u>--</u>
TOTAL FOR DEPARTMENT OF HEALTH AND HUMAN SERVICES					<u>20,051,000</u>	<u>16,317,000</u>
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>						
Recreation and Parks	Direct	Retired and Senior Volunteer Program	94.002	06SRPCA021	<u>150,000</u>	<u>--</u>
Emergency Management	State of California - California Volunteers	AmeriCorps	94.006	06FHY14-F115	<u>105,000</u>	<u>--</u>
TOTAL FOR CORPORATION FOR NATIONAL AND COMMUNITY SERVICE					<u>255,000</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, 2008
(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>
<u>DEPARTMENT OF HOMELAND SECURITY</u>						
Emergency Management	County of Los Angeles - Office of Emergency Management	State Domestic Preparedness Equipment Support Program Cluster with CFDA No. 97.067	97.004	2003-35	\$ <u>(102,000)</u>	\$ <u>--</u>
Mayor	Direct	Urban Areas Security Initiative	97.008	2004-EU-T3-K008	916,000	--
Mayor	State of California- Office of Homeland Security	Urban Areas Security Initiative	97.008	2005-0015 2006-0071	29,339,000 <u>4,551,000</u>	15,002,000 <u>3,134,000</u>
					<u>34,806,000</u>	<u>18,136,000</u>
Fire	Direct	National Urban Search and Rescue (US&R) Response System	97.025	EMW-2005-CA-0279 EMW-2006-CA-0195 EMW-2007-CA-0154	278,000 327,000 <u>463,000</u>	-- -- --
					<u>1,068,000</u>	<u>--</u>
City Administrative Officer	State of California- Office of Emergency Services	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	Unknown	<u>11,920,000</u>	<u>--</u>
Emergency Management	County of Los Angeles - Office of Emergency Management	Emergency Management Performance Grants	97.042	Unknown	<u>312,000</u>	<u>--</u>
Mayor	Direct	Homeland Security Grant Program Cluster with CFDA No. 97.004	97.067	2006-0071	<u>424,000</u>	<u>--</u>
Mayor	County of Los Angeles - Office of Emergency Management	Buffer Zone Protection Program	97.078	2005-GR-T5-0068	<u>1,229,000</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, 2008
(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>
Mayor	Direct	Information Analysis Infrastructure Protection (IAIP) Pilot Projects	97.080	2005-IP-080-000001	\$ <u>98,000</u>	\$ <u>--</u>
Police	Direct	Law Enforcement Officer Reimbursement Agreement Program	97.090	CA0194200	<u>1,000</u>	<u>--</u>
TOTAL FOR DEPARTMENT OF HOMELAND SECURITY					<u>49,756,000</u>	<u>18,136,000</u>
TOTAL FEDERAL AWARDS					<u>\$ 493,275,000</u>	<u>\$ 139,393,000</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, 2008**

<u>STATE GRANTOR/ CITY DEPARTMENT</u>	<u>PROGRAM TITLE</u>	<u>AGREEMENT NUMBER</u>	<u>EXPENDITURES</u>
STATE OF CALIFORNIA - DEPARTMENT OF JUSTICE			
City Attorney	Spousal Abuser Prosecution Program	07SA14E011	\$ <u>64,000</u>
STATE OF CALIFORNIA - DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL			
Mayor	Operation Alcoholic Beverage Control	06G-LA15	102,000
		06MDG-11	<u>4,000</u>
			<u>106,000</u>
	TOTAL SELECTED STATE FINANCIAL ASSISTANCE		\$ <u><u>170,000</u></u>

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

CITY OF LOS ANGELES, CALIFORNIA

**Notes to Schedules of Expenditures of Federal Awards and
Selected State Financial Assistance
For the Year Ended June 30, 2008**

1. Reporting Entity for the Single Audit

The City of Los Angeles, California (City) has defined its single audit reporting entity for the purpose 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 purpose 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, 2008
(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, 2008
(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 grant number AG06-01A-7250 were reported under CFDA No. 16.609 in prior year. Current year expenditures for this grant are reported under CFDA No. 16.744 – Anti-Gang Initiative Program in 2008.
- f. Expenditures for grant number 2004-DN-BX-K226 were reported under CFDA No. 16.743 in prior year. Expenditures for grant numbers 2004-DN-BX-K078 and 2005-DN-BX-K022 were reported under CFDA No. 16.741 in prior year. Current year expenditures for these grants are reported under CFDA No. 16.560 – National Institute of Justice Research, Evaluation, and Development Project Grants in 2008.
- g. Expenditures for certain grants reflect a credit balance due to the reversal of prior year accrued expenditures, refunds from subrecipients, and unallowed expenditures.
- h. 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.

CITY OF LOS ANGELES, CALIFORNIA

**Notes to Schedules of Expenditures of Federal Awards and
Selected State Financial Assistance
For the Year Ended June 30, 2008
(Continued)**

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, 2008
(Continued)**

4. Outstanding Loans of Federal Funds

The following schedule presents the amount of outstanding loans by CFDA number as of June 30, 2008:

<u>CFDA No.</u>	<u>Federal Grantor</u>	<u>Administering City Department</u>	<u>Outstanding Balance as of June 30, 2008</u>
11.307	DOC	Mayor's Office	\$ <u>N/A(Note 5)</u>
14.174	HUD	Housing	<u>4,160,000</u>
14.218	HUD	Community Development	126,949,000
		Housing	<u>322,375,000</u>
		Subtotal for CFDA No. 14.218	<u>449,324,000</u>
14.230	HUD	Housing	<u>6,644,000</u>
14.239	HUD	Housing	<u>401,959,000</u>
14.241	HUD	Housing	<u>6,492,000</u>
14.248	HUD	Community Development	50,990,000
		Housing	<u>44,576,000</u>
		Subtotal for CFDA No. 14.248	<u>95,566,000</u>
93.585	HHS	Community Development	<u>167,000</u>
		Total	\$ <u>964,312,000</u>

The outstanding loan balances shown above do not reflect an allowance for uncollectibles of \$611,363,000. In addition, the outstanding loan balances include \$77,779,000 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, 2008
(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 contract 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 the *“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”* for fiscal years ended September 30, 2007 and 2006, 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 No. 08-3 of 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 single audit reports for fiscal years ended September 30, 2007 and 2006. 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, 2009 Schedule of Expenditures of Federal Awards and related notes to the Schedule of Expenditures of Federal Awards.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008**

A. Summary of Auditor's Results:

- | | |
|---|---------------|
| 1. Type of report issued on the financial statements of the City of Los Angeles, California (City): | Unqualified |
| 2. Internal control over financial reporting: | |
| • Material weakness(es) identified? | Yes |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses? | Yes |
| 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 |

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)**

5. Identification of major programs and type of report issued on compliance for major programs:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Type of Report</u>
11.300 and 11.307	Public Works and Economic Development Cluster: Grants for Public Works and Economic Development Facilities and Economic Adjustment Assistance	Adverse
14.218	Community Development Block Grants/Entitlement Grants	Qualified
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing	Qualified
14.904	Lead Outreach Grants	Qualified
14.905	Lead Hazard Reduction Demonstration Grant Program	Qualified
16.710	Public Safety Partnership and Community Policing Grants	Unqualified
20.205	Highway Planning and Construction Program	Qualified
97.008	Urban Areas Security Initiative	Unqualified
97.036	Disaster Grants – Public Assistance (Presidentially- declared Disasters)	Unqualified
97.078	Buffer Zone Protection Program	Unqualified

6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes

7. The dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000

8. 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, 2008
(Continued)**

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

Two (2) significant deficiencies are 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*.” See Finding Nos. 08-1 and 08-2. The deficiency described in Finding No. 08-1 is considered to be a material weakness.

C. Findings and Questioned Costs relating to Federal Awards:

Nine (9) 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. 08-3 through 08-11. Of these findings, Finding Nos. 08-3, 08-4, 08-6, 08-7, 08-8, and 08-9 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, 2008
(Continued)**

Finding No. 08-1 – Continued Difficulties Encountered by the SMS – Material Weakness

Federal Grantor:	Not Applicable (N/A)
Pass-through Grantor:	N/A
City Department:	Department of General Services (GSD) and Information Technology Agency (ITA)
Fiscal Year:	2007-08
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 Accountability Office, "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. During the fiscal years 2005-06 and 2006-07 audits, we noted that the City had experienced problems with the SMS since May 2005.

With the assistance of an outside consulting firm, the Department of General Services (GSD) and the Information Technology Agency (ITA) completed a data reconciliation between SMS and FMIS and cleaned up data in SMS for fiscal year 2007-08.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)**

**Finding No. 08-1 – Continued Difficulties Encountered by the SMS – Material Weakness
(Continued)**

While the City has made significant efforts and progress to address the SMS issues, we still noted the following deficiencies during the fiscal year 2007-08 audit:

1. SMS year-end accrual report did not provide complete and accurate information resulting in an audit adjustment to increase accounts payable and expenses by approximately \$6 million.
2. Certain FMIS encumbrances were not able to be closed due to data discrepancies between SMS and FMIS.
3. Receipt information was not being input by the user departments in a timely manner, which may result in inaccurate expenditures and encumbrance balances.
4. Entries for internal vouchers (IV) on the daily SMS-FMIS reconciliation were 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.

Cause:

The deficiencies noted above were a continuation of the existing problems from prior fiscal years.

Effect:

The above condition resulted in an audit adjustment to increase accounts payable and expenses by approximately \$6 million. The problems identified had adversely affected the City's ability to reliably record, process, or report financial data in accordance with generally accepted accounting principles.

Recommendation:

We recommend that the City (1) perform a detail analysis of the SMS year-end accrual report; (2) prepare a monthly reconciliation by account balances (e.g. pre-cumbrances, encumbrances, accounts payable, and expenditures) between SMS and FMIS; (3) ensure timely input of receipt information by user departments; and (4) prepare a monthly IV reconciliation between SMS and FMIS.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)**

**Finding No. 08-1 – Continued Difficulties Encountered by the SMS – Material Weakness
(Continued)**

Management Response:

The City continues to progress addressing the material weaknesses associated with the Supply Management System (SMS). In December 2008, the City completed an upgrade of SMS software, from PeopleSoft 8.8 to 9.0. This upgrade is expected to improve SMS internal control and financial information. The following joint response from the Department of General Services (GSD) and the Information Technology Agency (ITA) addresses each of the four items mentioned in the finding.

1. As recommended, a detail analysis of the SMS year-end accrual report was conducted. We concur with the auditor's finding that expenses be adjusted. The SMS Project Team will work to address this issue, either by a change to the business process or a change to the report, to ensure more accurate reporting for the FY 2008-09 year-end close.
2. With the assistance of an outside consulting firm, the GSD and the ITA successfully completed a data reconciliation effort in both fiscal years 2006-07 and 2007-08. The results of these efforts synchronized the existing data between the two systems. GSD and ITA are continuing to monitor the interface processes used to transfer financial data between SMS and FMIS with the Entry Event module that would strengthen the data integrity in both systems. In addition, GSD, ITA, and the Controller's Office are in the process of implementing a month-end closing process to start in July 2009. The new process will provide improved data integrity throughout the year and a reduced effort to close the books at year-end. It will also provide the departments with better control of their funds, improved financial reporting, and a reduced amount of unnecessary encumbrances. GSD, ITA and the Controller's Office are currently testing this process with a "soft-close" for the months leading to the new fiscal year.
3. We concur with this point of the finding. The SMS project team will work at the general manager level to communicate the departments' role and responsibility in keying the receipt dates correctly, and will also work with the Controller's Office to determine if there are any additional systems or business processes that could be implemented to ensure that correct dates are keyed. The new month-end closing process stated in Item 2 should help alleviate this problem as well. The team will continue to emphasize the importance of inputting receipt information in a timely manner through memos from the City Purchasing Agent, SMS electronic bulletins, quarterly prompt payment committee meetings, and SMS training classes.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)**

**Finding No. 08-1 – Continued Difficulties Encountered by the SMS – Material Weakness
(Continued)**

4. It was originally reported that existing internal voucher (IV) reports in SMS were providing incorrect information since the upgrade in May 2005. The upgrade to version 9.0. did not resolve this problem. Correction of these reports is on the SMS Work Priority List. Once the reports are corrected, GSD staff can resume the daily IV interface reconciliation.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)**

Finding No. 08-2 – Guidelines for the Calculation of Allowance for Uncollectibles Not Being Followed – Significant Deficiency

Federal Grantor:	Not Applicable (N/A)
Pass-through Grantor:	N/A
City Department:	Los Angeles Fire Department (LAFD)
Fiscal Year:	2007-08
Program:	N/A
CFDA No.:	N/A

Criteria:

According to the LAFD's Billing and Accounts Receivable Guidelines, Section IV.A., "the allowance for doubtful accounts is calculated based on the average collection history up to the third year the accounts remain outstanding, with net mandated adjustments made during the year."

Condition:

We noted that the allowance calculation was based on the current collection history instead of the average collection history as prescribed in the Billing and Accounts Receivable Guidelines.

Cause:

The Billing and Accounts Receivable Guidelines were not being followed in the calculation of allowance.

Effect:

The above condition resulted in an audit adjustment to reduce allowance for uncollectibles and bad debt expenses by approximately \$3.4 million.

Recommendation:

We recommend that the LAFD strengthen the review process over the calculation of allowance for doubtful accounts to ensure adherence to the Billing and Accounts Receivable Guidelines.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)**

Finding No. 08-2 – Guidelines for the Calculation of Allowance of Uncollectibles Not Being Followed – Significant Deficiency (Continued)

Management Response:

The LAFD acknowledges the audit finding regarding the calculation of the allowance for doubtful accounts. The Department will strengthen the review of the allowance computation on an annual basis to insure that it is consistent with the guidelines. The LAFD will revisit no later than June 30, 2009, its internal Billing and Accounts Receivable Guidelines to ensure that they are current, consistent and non-confusing.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)**

Finding No. 08-3 – 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: 2007-08
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, 2008
(Continued)**

Finding No. 08-3 – 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 the 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.

During fiscal year 2007-08, the City received LA LDC’s single audit reports for the fiscal year ended September 30, 2007. According to LA LDC’s single audit reports, LA LDC did not allocate or track costs for the EDA RLF program. As expenses were not tracked by program, it was not possible for LA LDC’s independent auditor to determine if LA LDC was in compliance with the activities allowed or unallowed and allowable costs/cost principles requirements of the EDA RLF and CDBG programs. The reports also mentioned that LA LDC did not track increases to the RLF base when income exceeded administrative expenses and LA LDC did not reconcile the administration expenses to the income received.

The City has taken steps to fulfill its responsibilities as a pass-through entity. In fulfillment of its responsibilities, a management decision on the audit findings was issued within six months after receipt of LA LDC’s single audit reports. However, the City could not determine whether LA LDC’s audit necessitated an adjustment of the City’s own records. The City entered into a short term contract agreement with LA LDC to provide assistance to the City’s contracted independent certified public accounting firm (CPA Firm) to compile the necessary information for the City to determine (1) whether LA LDC administered the EDA RLF program in compliance with laws, regulations, and the provisions of contracts or grant agreements; (2) whether performance goals have been achieved; (3) the amount of funds disbursed to LA LDC under the expired contract; and (4) any resulting adjustments to the City’s records. The City is expecting the CPA’s report in May 2009. Therefore, as of the date of this report, the City has not completed the corrective action plan for related Finding Nos. 07-2, 07-4, and 07-5 of its fiscal year 2006-07 single audit reports.

This is a repeat finding from the prior year.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)**

**Finding No. 08-3 – Noncompliance with the Pass-through Entity’s Responsibilities
Requirement – Material Noncompliance and Material Weakness (Continued)**

Questioned Costs:

Up to the grant amounts from Department of Commerce and Department of Housing and Urban Development of \$1,685,000 and \$967,400, respectively, plus program income (i.e., interest and fees) in excess of administrative expenses which will be determined and verified by the City contracted CPA Firm.

Effect:

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

Recommendation:

We recommend that the City monitor the progress of the CPA Firm’s report to ensure a timely completion and communicate the results of the review to the Federal grantor. Also, the City should adjust its records based on the results of the review.

Management Response:

The City, through the Mayor’s Office and the Community Development Department (CDD), has engaged the services of an independent certified public accounting firm (CPA Firm) to address the conditions reported in LA LDC fiscal years 2006-07 and 2007-08 single audit reports specifically those pertaining to (1) the tracking of costs by program, (2) the determination of costs and unexpended cash balance, and (3) the reconciliation of the administrative expenses to the income received associated with the EDA RLF program. The City staff maintains close liaison with the CPA Firm and continues to work to establish the financial status of the program. Satisfactory completion of the work will enable the City to review the RLF activities, submit required reports to the Federal grantor, regain administrative control of the fund, and determine if the requirements of the EDA RLF program have been met.

As stated in the finding, the City (Mayor’s Office and CDD) has taken progressive and substantive steps to fulfill its responsibilities as a pass-through entity. The City entered into a short term agreement with LA LDC to secure necessary files and information needed by the aforementioned CPA Firm to complete the review of the RLF activities. This work is anticipated for completion in May 2009.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)**

**Finding No. 08-3 – Noncompliance with the Pass-through Entity’s Responsibilities
Requirement – Material Noncompliance and Material Weakness (Continued)**

The City will ensure that the activities of the EDA RLF program are monitored. The City will also ensure that the single audit reports are reviewed for completion and timely resolution of the findings.

The Mayor met with Department of Commerce, Economic Development Administration regional representatives to report progress and secured agreement with the course of remedy to address the single audit findings and outstanding reporting requirements. The Mayor’s staff, under the direction of a Deputy Mayor, maintains liaison with EDA in this regard.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)**

**Finding No. 08-4 – Non-submission of Financial Status Reports and Other Special Reports
– 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: 2007-08
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(a), all RLF recipients, including those receiving Recapitalization Grants for existing RLFs, must submit semi-annually Form ED-209S, Semi-Annual Report for EDA-Funded RLF Grants for the periods ending March 31 and September 30. 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.

This is a repeat finding from the prior year.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)**

**Finding No. 08-4 – Non-submission of Financial Status Reports and Other Special Reports
– Material Noncompliance and Material Weakness (Continued)**

Questioned Costs:

\$0

Effect:

The City was 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 Mayor's Office and the Community Development Department have engaged the services of an independent certified accounting firm to establish the activities of the program to enable the City to submit the delinquent financial and narrative status reports by April 2009.

The Mayor has met with Department of Commerce representatives and secured agreement for submission of the ED-209S and Form ED-209I reports according to the established time line.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)**

Finding No. 08-5 – Inaccurate Information in the Activity Summary Report

Federal Grantor:	Department of Housing Urban Development
Pass-through Grantor:	N/A
City Department:	Community Development Department (CDD)
Fiscal Year:	2007-08
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 2007-08, we noted that one (1) out of ten (10) activities selected for testing were reported inaccurately, and ninety (90) of one-thousand and sixty (1,060) total activities reported were not updated.

This is a repeat finding from the prior year.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)**

Finding No. 08-5 – Inaccurate Information in the Activity Summary Report (Continued)

Questioned Costs:

\$0

Effect:

Inaccurate reporting of activity performance to HUD distorts the program performance of the City. Also, the City was 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:

CDD currently implements the following procedures to ensure accuracy of the performance report:

- Conducts training at the end of the program year to formally request accomplishment data for activities that expended funds during the program year and to reinforce the federal reporting requirements that are identified during the initial project review through the Project Eligibility Proposal (PEP) process.
- City departments and/or CDD divisions are given a due date, no later than May 31st to provide CDD sufficient time to input accomplishment into HUD's IDIS and submit the CAPER/GPR to HUD by the June 30th due date.
- CDD performs numerous follow-up calls, emails and letters to City departments that do not submit accomplishment data by the due date. If necessary, CDD provides technical assistance to ensure accuracy of reports.
- CDD has added a sanction feature in its procedures by withholding payment from departments and organizations that do not meet the reporting requirements.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)**

Finding No. 08-6 – Non-Submission of Financial Status Reports – Material Noncompliance and Material Weakness

Federal Grantor: Department of Housing and Urban Development (HUD)
Pass-through Grantor: N/A
City Department: Los Angeles Housing Department (LAHD)
Fiscal Year: 2007-08
Program: Lead-Based Paint Hazard Control in Privately-Owned Housing
CFDA No.: 14.900

Criteria:

According to the Policy Guidance Number 2001-03 issued by the HUD Office of Healthy Homes and Lead Hazard Control, grantees are required to submit a quarterly Financial Status Report (Standard Form 269) within 30 days after the end of each quarter-end.

Condition:

The City did not submit the quarterly Financial Status Report for each quarter-end during the fiscal year 2007-08.

Questioned Costs:

\$0

Effect:

The City was not in compliance with the reporting requirements.

Recommendation:

We recommend that the City submit the outstanding Financial Status Reports and implement procedures to ensure a timely submission in the future.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)**

Finding No. 08-6 – Non-Submission of Financial Status Reports – Material Noncompliance and Material Weakness (Continued)

Management Response:

LAHD is currently completing the Financial Status Reports (FSR) for all quarters of fiscal year 2007-08 for the program. The completed forms will be submitted to the HUD by March 31, 2009.

To ensure that these and future reports are completed and submitted in compliance with Policy Guidance Number 2001-03, the following procedures have been implemented:

- The Lead Grant Remediation Program Manager coordinates with LAHD's Accounting Division, Grant Account Manager to prepare LAHD "Track 99" reports, which record and reconcile LAHD's draws from the federal Line of Credit Cash System (LOCCS) and payments from the City's Financial Management Information System (FMIS).
- The final Track 99 report is reviewed and approved by the Accounting Division Director.
- The Lead Grant Program Manager uses the Track 99 report to complete the FSR for each program.
- The completed FSR are reviewed and approved by the Accounting Division Director and submitted to HUD with regular quarterly reports for each program.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)**

Finding No. 08-7 – Non-Submission of Financial Status Reports – Material Noncompliance and Material Weakness

Federal Grantor:	Department of Housing and Urban Development (HUD)
Pass-through Grantor:	N/A
City Department:	Los Angeles Housing Department (LAHD)
Fiscal Year:	2007-08
Program:	Lead Outreach Grants
CFDA No.:	14.904

Criteria:

According to the Policy Guidance Number 2001-03 issued by the HUD Office of Healthy Homes and Lead Hazard Control, grantees are required to submit a quarterly Financial Status Report (Standard Form 269) within 30 days after the end of each quarter-end.

Condition:

The City did not submit the quarterly Financial Status Report for each quarter-end during the fiscal year 2007-08.

Questioned Costs:

\$0

Effect:

The City was not in compliance with the reporting requirements.

Recommendation:

We recommend that the City submit the outstanding Financial Status Reports and implement procedures to ensure a timely submission in the future.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)**

Finding No. 08-7 – Non-Submission of Financial Status Reports – Material Noncompliance and Material Weakness (Continued)

Management Response:

LAHD is currently completing the Financial Status Reports (FSR) for all quarters of fiscal year 2007-08 for the program. The completed forms will be submitted to the HUD by March 31, 2009.

To ensure that these and future reports are completed and submitted in compliance with Policy Guidance Number 2001-03, the following procedures have been implemented:

- The Lead Grant Remediation Program Manager coordinates with LAHD's Accounting Division, Grant Account Manager to prepare LAHD "Track 99" reports, which record and reconcile LAHD's draws from the federal Line of Credit Cash System (LOCCS) and payments from the City's Financial Management Information System (FMIS).
- The final Track 99 report is reviewed and approved by the Accounting Division Director.
- The Lead Grant Program Manager uses the Track 99 report to complete the FSR for each program.
- The completed FSR are reviewed and approved by the Accounting Division Director and submitted to HUD with regular quarterly reports for each program.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)**

Finding No. 08-8 – Non-Submission of Financial Status Reports – Material Noncompliance and Material Weakness

Federal Grantor: Department of Housing and Urban Development (HUD)
Pass-through Grantor: N/A
City Department: Los Angeles Housing Department (LAHD)
Fiscal Year: 2007-08
Program: Lead Hazard Reduction Demonstration Grant Program
CFDA No.: 14.905

Criteria:

According to the Policy Guidance Number 2001-03 issued by the HUD Office of Healthy Homes and Lead Hazard Control, grantees are required to submit a quarterly Financial Status Report (Standard Form 269) within 30 days after the end of each quarter-end.

Condition:

The City did not submit the quarterly Financial Status Report for each quarter-end during the fiscal year 2007-08.

Questioned Costs:

\$0

Effect:

The City was not in compliance with the reporting requirements.

Recommendation:

We recommend that the City submit the outstanding Financial Status Reports and implement procedures to ensure a timely submission in the future.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)**

Finding No. 08-8 – Non-Submission of Financial Status Reports – Material Noncompliance and Material Weakness (Continued)

Management Response:

LAHD is currently completing the Financial Status Reports (FSR) for all quarters of fiscal year 2007-08 for the program. The completed forms will be submitted to the HUD by March 31, 2009.

To ensure that these and future reports are completed and submitted in compliance with Policy Guidance Number 2001-03, the following procedures have been implemented:

- The Lead Grant Remediation Program Manager coordinates with LAHD's Accounting Division, Grant Account Manager to prepare LAHD "Track 99" reports, which record and reconcile LAHD's draws from the federal Line of Credit Cash System (LOCCS) and payments from the City's Financial Management Information System (FMIS).
- The final Track 99 report is reviewed and approved by the Accounting Division Director.
- The Lead Grant Program Manager uses the Track 99 report to complete the FSR for each program.
- The completed FSR are reviewed and approved by the Accounting Division Director and submitted to HUD with regular quarterly reports for each program.

CITY OF LOS ANGELES, CALIFORNIA

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)

**Finding No. 08-9 – 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: 2007-08
Program: Highway Planning and Construction Program (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 2007-08, the Department of Public Works Bureau of Street Services (Bureau) charged equipment expenditures in the amount of \$645,060 to the Highway Planning and Construction Program. These equipment expenditures were calculated based on an outdated equipment rates schedule, which has 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.

This is a repeat finding from the prior year.

Questioned Costs:

\$0

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)**

**Finding No. 08-9 – 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 were not adequately supported; therefore, the City was 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 and approved by a supervisor.

Management Response:

The Bureau of Street Services (Bureau) has been developing an automated solution that would calculate the equipment rates based upon actual equipment usage and maintenance costs. The automation project was to be performed in-house within the Bureau and developed by a Programmer Analysis IV (PA IV). Unfortunately, the loss of staffing has delayed the development of the automation project related to the equipment rate calculation.

In September 2008, the PA IV assigned to the automation project transferred to another City department leaving 50 percent of the automation project incomplete. The Bureau did not have staff with extensive programming knowledge readily available to complete the remainder of the work. This situation has been made even more difficult by the on-going hiring freeze imposed within the City. Although the Bureau was able to hire a Fiscal System Specialist I (FSS I) to replace the PV IV, the FSS I was not hired until late December 2008. The duties of the FSS I extend beyond the programming necessary to complete the automation project and involve critical maintenance functions required for day-to-day operations.

Resolution of this finding is a high priority for the Bureau. The Bureau will continue the efforts to complete the automation project. It is anticipated that an additional six months is needed to complete the automation project while balancing the needs for day-to-day operations.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)**

Finding No. 08-10 –Physical Inventory of Equipment Not Performed Regularly

Federal Grantor:	Department of Homeland Security
Pass-through Grantor:	State of California - Office of Homeland Security
City Department:	Mayor's Office
Fiscal Year:	2007-08
Program:	Urban Area Security Initiative (UASI)
CFDA No.:	97.008

Criteria:

According to OMB Circular A-102 Common Rule, equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

Condition:

We noted that the last physical inventory of equipment for the Urban Area Security Initiative Program was taken in 2004.

Questioned Costs:

\$0

Effect:

The City was not in compliance with the equipment and real property management requirement.

Recommendation:

We recommend that the City take a physical inventory of equipment at least once every two years.

Management Response:

The responsible unit of the Mayor's Office has scheduled a monitoring visit in late April 2009 and will continue the monitoring process bi-annually. During the monitoring visit, staff will perform a physical inventory to ensure that all equipment is accounted for, reconcile to the accounting records, and make certain that appropriate controls are in place to safeguard equipment.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)**

Finding No. 08-11 – Financial Status Report and Progress Report Not Submitted Timely

Federal Grantor: Department of Homeland Security
Pass-through Grantor: State of California Office of Homeland Security
City Department: Mayor's Office
Fiscal Year: 2007-08
Program: Urban Area Security Initiative (UASI)
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 Section 10.a of the *Fiscal Year 2003 Urban Areas Security Initiative – Discretionary Grants Program-Program Guidelines and Application Kit*, Financial Status Report (FSR), Standard Form 269A, is due within 45 days of the end of each calendar quarter. The final financial report is due 120 days after the end of the award period.

According to Section 10.b, Categorical Assistance Progress Reports (CAPRs) are due within 30 days of the end of the reporting periods, which are June 30 and December 31, for the life of the award. In addition, the final programmatic progress report is due 120 days after the end date of the award period.

Condition:

We noted that the City submitted the following reports after their due dates:

<u>Project</u>	<u>Type of Report</u>	<u>Report Period</u>	<u>Due Date</u>	<u>Submission Date</u>
Operation Archangel	FSR	10/1/07 – 12/31/07	2/14/08	4/25/08
Operation Archangel	CAPR	7/1/07 – 12/31/07	1/30/08	3/17/08
UASI FY03 Part I	Final Progress Report	Award Period Ended 5/30/06	9/30/06	10/22/07

This is a repeat finding from the prior year.

CITY OF LOS ANGELES, CALIFORNIA

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)**

**Finding No. 08-11 – Financial Status Report and Progress Report Not Submitted Timely
(Continued)**

Questioned Costs:

\$0

Effect:

The City was not in compliance with the reporting requirements of the Urban Areas Security Initiative's program guidelines.

Recommendation:

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

Management Response:

The responsible unit of the Mayor's Office is now fully staffed and has trained the current staff to complete all the FSR before the due date to ensure that the City is in compliance with the reporting requirements of the Urban Area Security Initiative's program guidelines. The Mayor's Office is developing a database that will keep track of all the FSR due dates and help remind accountants of upcoming due dates. This system will be completed by June 30, 2009.

CITY OF LOS ANGELES, CALIFORNIA

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008**

**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: 2006-07
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 Accountability 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 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

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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) requisition (RQ), eight (8) POs and one (1) PV had 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

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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 the 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

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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 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.

Current Year Status:

The recommendation has been partially implemented. For current year status see Finding No. 08-1 on page 38 of this report.

CITY OF LOS ANGELES, CALIFORNIA

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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: 2006-07
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.

CITY OF LOS ANGELES, CALIFORNIA

Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)

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

- (6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.
- (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

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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.

Current Year Status:

The recommendation has been partially implemented. For current year status of this finding and two other related findings, Finding Nos. 07-4 and 07-5, see Finding No. 08-3 on page 44 of this report.

CITY OF LOS ANGELES, CALIFORNIA

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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: 2006-07
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

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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.

Current Year Status:

The recommendation has not been implemented. For current year status see Finding No. 08-4 on page 48 of this report.

CITY OF LOS ANGELES, CALIFORNIA

Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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: 2006-07
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

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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.

Current Year Status:

The recommendation has been partially implemented. For current year status of this finding and two other related findings, Finding Nos. 07-2 and 07-5, see Finding No. 08-3 on page 44 of this report.

CITY OF LOS ANGELES, CALIFORNIA

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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: 2006-07
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

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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.

Current Year Status:

The recommendation has been partially implemented. For current year status of this finding and two other related findings, Finding Nos. 07-2 and 07-4, see Finding No. 08-3 on page 44 of this report.

CITY OF LOS ANGELES, CALIFORNIA

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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:	2006-07
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

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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.

Current Year Status:

The recommendation has been partially implemented. Of the sixty-one (61) activities that were not updated, thirty-one (31) have been received and reported to HUD through IDIS. Also effective immediately, CDD will withhold payments to non-responsive departments until it receives necessary documents and information. For current year status see Finding No. 08-5 on page 50 of this report.

CITY OF LOS ANGELES, CALIFORNIA

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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:	2006-07
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

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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.

Current Year Status:

The recommendation has been implemented. The Community Development Department has worked with the Housing Department to modify the procedures for reconciliation and transfer of program income to CDBG. Under the modified procedures, program income will be transferred twice monthly, one before the monthly closing and one on the 15th of the month, so that all adjustments are reflected timely.

CITY OF LOS ANGELES, CALIFORNIA

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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: 2006-07
Program: Highway Planning and Construction Program (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

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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.

Current Year Status:

The recommendation has not been implemented. For current year status see Finding No. 08-9 on page 58 of this report.

CITY OF LOS ANGELES, CALIFORNIA

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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: 2006-07
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

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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.

Current Year Status:

The recommendation has been implemented. The LADOA has revised its reporting procedures to ensure accurate information to be properly reported on Form CDA-32.

CITY OF LOS ANGELES, CALIFORNIA

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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: 2006-07
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

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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.

Current Year Status:

The recommendation has been implemented. EMD reconciled the expenditures reported to the grantor and returned the overbilling amount to the grantor in May 2008.

CITY OF LOS ANGELES, CALIFORNIA

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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: 2006-07
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

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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.

Current Year Status:

The recommendation has been implemented. The D-time system was implemented in September 2007 for tracking all grant-funded salary costs.

CITY OF LOS ANGELES, CALIFORNIA

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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: 2006-07
 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

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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.

CITY OF LOS ANGELES, CALIFORNIA

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)**

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

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.

Current Year Status:

The recommendation has been implemented. The City has established procedures to minimize the time elapsing between the transfer of funds from the grantor and disbursement to the City departments and sub-recipients. The interest income due to the grantor for the period October 2004 through June 2008 in the amount of \$1,608,602 has been calculated and returned to the grantor in three separate payments.

CITY OF LOS ANGELES, CALIFORNIA

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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: 2006-07
 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

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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 Mayor'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.

Current Year Status:

The recommendation has not been implemented. The corrective action plan is taking more time and is more extensive than originally anticipated. In order to ensure that all expenditures are properly supported, the Mayor's Office is contacting all subrecipients for the reimbursement requests and working with the Controller's Office to perform a detailed analysis of the expenditures. The detailed analysis is expected to be completed by the end of March 2009.

CITY OF LOS ANGELES, CALIFORNIA

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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:	2006-07
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

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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:

<u>Report Period</u>	<u>Due Date</u>	<u>Submission Date</u>	<u>Timely Submission</u>
Financial Status Reports:			
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
Progress Reports:			
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

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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.

Current Year Status:

The recommendation has been partially implemented. For current year status see Finding No. 08-11 on page 61 of this report.

CITY OF LOS ANGELES, CALIFORNIA

**Summary Schedule of Prior Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(Continued)**

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

Federal Grantor: Not Applicable (N/A)
Pass-through Grantor: N/A
City Department: Department of General Services (GSD)
Fiscal Year: 2005-06
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 Years' Findings and Questioned Costs
For the Year Ended June 30, 2008
(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:

The recommendation has been partially implemented. For current year status see Finding No. 08-1 on page 38 of this report.