

**CITY OF EL SEGUNDO**

Single Audit Report on Federal Awards

Year Ended September 30, 2015

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**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***

Honorable Mayor and City Council  
City of El Segundo, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of El Segundo, California (City), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 19, 2016. Our report includes a reference to other auditors who audited the financial statements of the El Segundo Senior Citizen Housing Corporation, a discretely presented component unit, as described in our report on the City's financial statements. The financial statements of the El Segundo Senior Citizen Housing Corporation were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 15-001 to 15-005 that we consider to be significant deficiencies.

### **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*.

### **City's Responses to Findings**

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Irvine, California  
September 19, 2016

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

**INDEPENDENT AUDITOR'S REPORT**

Honorable Mayor and City Council  
City of El Segundo, California

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

We have audited the City of El Segundo, California's (City's), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2015. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and is described in the accompanying Schedule of Findings and Questioned Costs as item 15-005. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be

material weaknesses. However, we did identify a certain deficiency in internal control over compliance, as described in the Schedule of Findings and Questioned Cost as item 15-005 that we consider to be a significant deficiency.

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of City as of and for the year ended September 30, 2015, and have issued our report thereon dated September 19, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards and the Schedule of Expenditures of Federal Awards for LAWA Grant are presented for purposes of additional analysis as required by OMB Circular A-133 and the Los Angeles World Airport (LAWA) and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Irvine, California  
September 19, 2016

**CITY OF EL SEGUNDO**

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2015

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<u>U.S. Department of Transportation:</u>			
Direct assistance:			
Federal Aviation Administration			
Airport Improvement Program Part 150 Noise Abatement	20.106	AIP 3-06-0139-65	\$ 3,071,829
Airport Improvement Program Part 150 Noise Abatement	20.106	AIP 3-06-0139-74	<u>1,940,894</u>
Subtotal			<u>5,012,723</u>
Passed through CalTrans:			
Highway Planning and Construction	20.205	DEMO8L-5235(012)	<u>50,726</u>
Total U.S. Department of Transportation			<u>50,726</u>
<u>U.S. Department of Housing and Urban Development:</u>			
Passed through the County of Los Angeles:			
Community Development Commission:			
Community Development Block Grant	14.218	D96646-09	<u>41,768</u>
Total U.S. Department of Housing and Urban Development			<u>41,768</u>
<u>U.S. Department of Treasury</u>			
Direct assistance:			
Equitable Sharing Fund Program	21.000	CA0192300	<u>96,534</u>
Total U.S. Department of Treasury			<u>96,534</u>
<u>U.S. Department of Justice</u>			
Direct assistance:			
Equitable Sharing Fund Program	16.922	CA0192300	124,180
Passed through the Los Angeles Metropolitan Police Apprehension Crime Task force (L.A. IMPACT):			
Equitable Sharing Fund Program	16.922	CA0192KOX	<u>94,200</u>
Total U.S. Department of Justice			<u>218,380</u>
Total Federal Expenditures			<u>\$ 5,420,131</u>

See Note to Schedule of Expenditures of Federal Awards

## CITY OF EL SEGUNDO

### Note to the Schedule of Expenditures of Federal Awards

Year Ended September 30, 2015

(1) **Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards**

(a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the City of El Segundo, California (City) that are reimbursable under programs of federal agencies providing financial awards. For the purposes of this schedule, financial awards include federal awards received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portions of program expenditures reimbursable with such federal funds are reported in the accompanying schedule. Program expenditures in excess of the maximum reimbursement authorized or the portion of the program expenditures that were funded with other state, local or other non-federal funds are excluded from the accompanying schedule.

(b) Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recognized when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported include any property or equipment acquisitions incurred under the federal program.

(c) Subrecipients

The City did not make any payments to subrecipients during the fiscal year ended September 30, 2015.

## CITY OF EL SEGUNDO

### Schedule of Findings and Questioned Costs

Year Ended September 30, 2015

#### (A) **Summary of Auditors' Results**

1. An unmodified opinion was issued by the auditors on the financial statements of the auditee.
2. No material weaknesses in internal control over financial reporting were reported. However, five significant deficiencies in internal control over financial reporting, identified as items 15-001 to 15-005, were reported.
3. The audit disclosed no instances of noncompliance which are material to the financial statements of the auditee.
4. The audit disclosed no material weaknesses and one significant deficiency in internal control over compliance with respect to the major federal program, which is reported as item 15-005.
5. An unmodified report was issued by the auditors on compliance for its major program.
6. The audit disclosed one finding which the auditor is required to report under paragraph .510(a) of OMB Circular A-133, identified as item 15-005.
7. The major program of the auditee was CFDA No. 20.106 – U.S. Department of Transportation, Federal Aviation Administration, Airport Improvement Program Part 150 Noise Abatement.
8. The dollar threshold used to distinguish Type A and Type B programs was \$300,000.
9. The auditee met the criteria to be considered a low risk auditee, as defined by OMB Circular A-133, paragraph .530, for the year ended September 30, 2015 for purposes of major program determination.

#### (B) **Findings Related to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards (GAGAS)**

There were four findings required to be reported in accordance with GAGAS. Four of those findings are described in this section as items 15-001 to 15-004, and the other finding reported as item 15-005 in Section C.

## CITY OF EL SEGUNDO

### Schedule of Findings and Questioned Costs

(Continued)

(B) **Findings related to the financial statements which are required to be reported in accordance with GAGAS (Continued)**

**15-001: Adjustments Detected by the Audit Process**

An important element of internal control over financial reporting is for management to identify adjustments necessary for its financial statements to be fairly stated. Whenever possible, adjustments should be reflected in the accounting records prior to the start of the audit. When this is not possible, management should identify and communicate to the auditors the potential areas of adjustment that may need to be addressed during the audit process. This is an important element of internal control to reduce the risk of material misstatement.

The following material adjustments were detected by the audit process:

- Adjustment of \$3,084,813 in the LAWA Special Revenue Fund to correct certain intergovernmental revenue that was recognized in the prior year that should have been reflected as unearned revenue;
- An adjustment of \$493,537 in the LAWA Special Revenue Fund to recognize certain intergovernmental revenue in the prior year that was incorrectly presented as unearned revenue; and
- Adjustments of \$273,760 in the Residential Sound Insulation (RSI) and LAWA Special Revenue Funds to correct the double recording of an entry transferring cash to the RSI Fund for reimbursable costs incurred.

**Recommendation**

We recommend that the City make efforts to ensure that all journal entries are properly reflected in the financial statements prior to the commencement of the audit.

**Management Response**

Staff will prepare all journal entries which will be reviewed for accuracy and compliance and approved by a manager or senior level staff within the Finance Department prior to posting into the financial system (Eden). This will ensure a higher level of quality review of all journal entries.

## CITY OF EL SEGUNDO

### Schedule of Findings and Questioned Costs

(Continued)

#### **Findings related to the financial statements which are required to be reported in accordance with GAGAS (Continued)**

##### **15-002: Timely Completion of Bank Reconciliations**

The City did not perform timely bank reconciliations during the year ended September 30, 2015. For example, the September 2015 bank statements were not reconciled to the general ledger until April 2016. In addition, several checks were noted on the September 2015 bank reconciliation as being outstanding dating back to April 2015. Timely bank reconciliations are needed to ensure that any problems encountered within the area of cash are detected and resolved soon after being identified.

##### **Recommendation**

We recommend that the City implement procedures to ensure that bank reconciliations are performed monthly, and completed within thirty days following the end of the preceding month. Additionally, we recommend that any unusual reconciling items identified be as part of the bank reconciliation be promptly investigated and adjusted, as appropriate, with adequate explanations.

##### **Management Response**

During FY 2014-15 and part of FY 2015-16, the Finance Department has had key management and supervisory positions vacant. These positions either produced the bank reconciliations or had oversight of the process. These positions will be filled during FY 2015-16. Staff will incorporate the bank reconciliation process as part of their monthly routine. The Finance Manager or designee will review and verify the timeliness and accuracy of this process.

##### **15-003: Segregation of Duties Within Utility Billing**

An individual within Utility Billing, has access to cash receipts and the ability to make adjustments to the customer accounts billing system. It is the current practice of the City that any adjustments proposed by this individual be approved prior to this individual making the adjustment. However, with access to both the cash receipts and the ability to make adjustments, adjustments could be made and not be detected.

##### **Recommendation**

We recommend that the City review the controls surrounding the utility billing function and consider modifying certain duties to ensure that those individuals that have the ability to modify the customer accounts billing system do not have access to cash receipts. In lieu of reallocating duties, the City could consider implementing a compensating control whereby a monthly customer adjustment report generated from the system would be reviewed by an

## CITY OF EL SEGUNDO

### Schedule of Findings and Questioned Costs

(Continued)

#### **Findings related to the financial statements which are required to be reported in accordance with GAGAS (Continued)**

##### **15-003: Segregation of Duties Within Utility Billing (Continued)**

individual independent of the utility billing function to ensure posted adjustments were valid and properly supported.

##### **Management Response**

The “adjustments process” has been reviewed and corrective measures implemented as follows:

1. For billing adjustments that do not require a refund, the Accounting Technician will create an “adjustment batch” which will not be posted in Eden. The adjustment batch will be reviewed and approved by the accounting supervisor (or designated accountant) who will approve and post to the system.
2. For billing adjustments that require a refund, three layers of verification will be implemented. The accounting technician will generate a refund report for review and approval by the Revenue Manager. The approved list will be sent to the accountant/accounting technician to process the batch in Eden and generate invoices for accounts payable. The accounting supervisor will post the batch to the GL and approve the refund checks.

A monthly report for both types of adjustments will be printed and reconciled against the utility billing system and the GL by the revenue manager or accountant.

##### **15-004: Delegation of Investment Function and Annual Approval of Investment Policy**

The responsibility for placing investments rests with the City Council. Section 53607 of the California Government Code allows the City Council to delegate this function to the Treasurer, but for a period of one year only. The City Council last delegated the investment function to the Treasurer at its meeting of August 2, 2011.

Additionally, Section 53646(a)(2) of the California Government Code indicates that the Treasurer may submit an annual investment policy to the City Council for review and approval. The last time an investment policy was reviewed and approved by the City Council was at its meeting of August 2, 2011. Although the review of the investment policy is not required, it is a best practice.

##### **Recommendation**

We recommend that a resolution adopting the investment policy and delegating the investment function to the Treasurer be submitted to the City Council for consideration on an annual basis.

## CITY OF EL SEGUNDO

### Schedule of Findings and Questioned Costs

(Continued)

#### **Findings related to the financial statements which are required to be reported in accordance with GAGAS (Continued)**

#### **15-004: Delegation of Investment Function and Annual Approval of Investment Policy (Continued)**

##### **Management Response**

City Council last delegated the investment function to the City Treasurer on September 29, 2015 with the approval of Resolution No. 4933. City staff will ensure this delegation is brought to City Council on an annual basis corresponding with the annual budget adoption each September.

A revised Investment Policy (Policy) was approved by City Council on April 5, 2016. Staff will bring the Policy before the Investment Committee each year for review. If there are any changes to the Investment Policy, staff will bring the Policy before the City Council for review and approval.

#### **(C) Findings and Questioned Costs for Federal Awards**

There was one finding related to Federal programs.

##### **15-005: Financial Status Reports**

FEDERAL AGENCY: U.S. Department of Transportation, Federal Aviation Administration  
CFDA NO.: 20.106  
FEDERAL PROGRAM NAME: Airport Improvement Program Part 150 Noise Abatement  
FEDERAL AWARD PROGRAM NOs.: AIP 3-06-0139-65; AIP 3-06-0139-74  
FEDERAL AWARD YEAR: 2011, 2013  
CONTROL CATEGORY: Reporting  
QUESTIONED COSTS: \$0

Certain agencies that provide grant funds to the City require that financial information be reported to the agencies in a timely manner. The City has not yet filed its Federal Financial Report to the Federal Aviation Administration for the year ended September 30, 2015. A similar condition was previously reported in the management letters issued in conjunction with the audits for the years ended September 30, 2012, 2013 and 2014.

OMB Circular A-102, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* ("Common Rule"), Subpart C, Section 40(b) requires that a grantee submit Standard Form 425 to its granting agency on at least a quarterly basis. If the granting agency does not specify a frequency for the submittal of this report, then the report should be submitted annually, within 90 days after the end the fiscal year.

**CITY OF EL SEGUNDO**

Schedule of Findings and Questioned Costs

(Continued)

**(C) Findings and Questioned Costs for Federal Awards (Continued)**

**15-005: Financial Status Reports (Continued)**

**Recommendation**

We recommend that the City submit the Federal Financial Report annually within the timeframe required by OMB Circular A-102.

**Management Response**

Staff will incorporate the annual filing of the Federal Financial Report into the fiscal year-end task list for Finance. Staff in the accountant position will be identified to complete this task. The Finance Manager will review the report and confirm its submission to the proper Federal agency.

## **CITY OF EL SEGUNDO**

### **Summary Schedule of Prior Year Findings**

**Year Ended September 30, 2015**

The following is the status or prior audit findings for the year ended September 30, 2014.

#### **14-001: Enterprise Funds Capital Assets**

##### **Recommendation**

We recommended that the City expand the existing Enterprise Funds capital assets listings to include all capital assets currently in service, as well as each capital asset's related accumulated depreciation.

##### **Current Year Status**

This finding is considered resolved. The City updated its Enterprise Funds capital asset listings as required.

#### **14-002: Financial Status Reports**

##### **Recommendation**

We recommended that the City submit the Federal Financial Report annually within the timeframe required by OMB Circular A-102.

##### **Current Year Status**

For the year ended September 30, 2015, the Federal Financial Report was not submitted during the audit period. As such, this finding has not been resolved. See Finding 15-005.

**CITY OF EL SEGUNDO**

Schedule of Expenditures of Federal Awards  
for LAWA Grant

Year Ended September 30, 2015

	<u>Costs Claimed</u>	<u>Costs Accepted</u>	<u>Costs Questioned</u>	<u>Costs Recommended for Disallowance</u>	<u>City Matching</u>
Los Angeles World Airport (LAWA) Grant Fiscal Year 2014-15 Expenditures	<u>\$ 6,862,428</u>	<u>\$ 6,862,428</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Totals	<u>\$ 6,862,428</u>	<u>\$ 6,862,428</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>