

City of Pomona

Compliance Reports and Other Financial Information
June 30, 2004

McGladrey & Pullen
Certified Public Accountants

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City of Pomona

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Federal Grantor/Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Entity Identifying Number/ Program Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Passed through County of Los Angeles:			
Special Programs for the Aging—Title III, Part C	93.045	41021	<u>\$ 125,993</u>
U.S. Department of Agriculture:			
Passed through County of Los Angeles:			
Nutrition Program for the Elderly	10.570	41021	<u>25,522</u>
U.S. Department of Housing and Urban Development:			
Direct Programs:			
HOME Investment Partnership Act	14.239*	M00-MC-06-0528	1,354,475
Community Development Block Grant	14.218	B-00-MC-06-0527	2,807,698
Emergency Shelter Grants Program	14.231	S-00-MC-06-0527	134,043
Supportive Housing Program	14.235	CA16A150524	164,918
Shelter Plus Care	14.238	CA16C931148	367,209
Section 8—Housing Assistance Voucher Program	14.855*	CA123VO	<u>8,248,998</u>
			<u>13,077,341</u>
U.S. Department of Justice:			
Direct Programs:			
Local Law Enforcement Block Grant	16.592	Various	501,673
Asset Forfeiture	16.000	N/A	<u>1,084,895</u>
			1,586,568
Passed through Governor's Office of Emergency Services:			
State Domestic Preparedness Equipment	16.007	2002-88,OES#037-00000	<u>84,440</u>
			<u>1,671,008</u>
			<u>\$ 14,899,864</u>

Total federal awards expended

* Denotes major program

CFDA=Catalog of Federal Domestic Assistance

N/A = Not Available

See Notes to Schedule of Expenditures of Federal Awards.

City of Pomona

**Notes to Schedule of Expenditures of Federal Awards
June 30, 2004**

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Pomona, California, (the City) and is presented on the modified-accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Subrecipients

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows:

<u>Program Title Provided</u>	<u>Federal CFDA Number</u>	<u>Amount</u>
Community Development Block Grant	14.218	\$ 391,650
Emergency Shelter Grants Program	14.231	115,176
HOME Investment Partnership Act	14.239	435,052
Supportive Housing Grant	14.235	161,771

Note 3. Loan Outstanding

The City has Section 108 loans outstanding in the amount of \$1,500,000 at June 30, 2004. There were no principal payments made during the year ended June 30, 2004.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in accordance with *Government Auditing Standards*

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Pomona, California, (the City) as of and for the year ended June 30, 2004, and have issued our report thereon dated November 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention related to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. One reportable condition is described in the accompanying schedule of findings and questioned costs as item RC 04-1.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

McGladrey & Pullen, LLP

Irvine, California
November 15, 2004

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards

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

Compliance

We have audited the compliance of the City of Pomona, California, (the 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, 2004. 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.

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 item CF 04-1 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding HUD Reporting that are applicable to its low- and moderate-income housing projects funded by the Community Development Block Grant program. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of and for the year ended June 30, 2004, and have issued our report thereon dated November 15, 2004. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is 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 Finance Committee, City Council, management, federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Irvine, California
November 15, 2004

Schedule of Findings and Questioned Costs
June 30, 2004

I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Reportable condition(s) identified that are not considered to be material weaknesses? X Yes _____ None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major program:

Material weakness(es) identified? _____ Yes X No

Reportable condition(s) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? X Yes _____ No

Identification of major programs:

CFDA Number	Name of Federal Program
14.855	Section 8—Housing Assistance Voucher Program
14.239	HOME Investment Partnership Act

Dollar threshold used to distinguish between type A and type B programs: \$ 446,996

Auditee qualified as low-risk auditee? X Yes _____ No

Schedule of Findings and Questioned Costs, Continued
June 30, 2004

II. Findings Related to the Financial Statement Audit as Required to be Reported in accordance with Government Auditing Standards

A. Reportable Condition

RC 04-1 Fixed Assets: Prior to the audit of the City's June 30, 2003 financial statements, the City's fixed assets detail did not agree to its general ledger fixed asset and accumulated depreciation balances, which resulted in a restatement of the June 30, 2003 proprietary funds capital assets, net of accumulated depreciation of \$5,942,836. As noted during our audit of the City's capital assets during the 2004 audit, the City still uses Excel databases to track its capital assets activity, including the recording of depreciation. We believe using Excel spreadsheets instead of specialized capital asset software increases the risk that computational mistakes might occur and not be detected. Specialized capital asset software usually allows for exception reporting that would identify computational errors.

Management's Response: The City is in the process of implementing the fixed asset system that is integrated with the City's general ledger system.

B. Compliance Findings

None noted.

III. Findings and Questioned Costs for Federal Awards

A. Reportable Conditions

None noted.

B. Compliance Finding

The following is a finding noted during the U.S. Department of Housing and Urban Development's (HUD) Monitoring Report of March 4, 2004 which had not been cleared as of June 30, 2004.

CF 04-1 Community Development Block Grant (CDBG):

CDBG CFDA# 14.218

CDBG Service-Area Determination (Finding One):

Criteria: Pursuant to 24 CFR, grantees must determine and describe service areas (street boundaries) for projects meeting the low- and moderate-income area benefit national objective. A review of the files by HUD showed three patterns of regulatory noncompliance: (1) analysis of service areas and corresponding street boundaries was not undertaken for each individual project; (2) the City assumed that including a 1990 low- and moderate-income census tract map in the project docket file was sufficient to comply with the low- and moderate-income area benefit national objective; or (3) project service areas were determined by City Council districts without a careful analysis of the low-income service area or ensuring implementation within those eligible low-income areas based on the nature and location of each individual project. However, for these three projects, the benefits accrue to specific streets or property addresses; therefore, the service area should have been determined down to the low- and moderate-income block-group level.

Schedule of Findings and Questioned Costs, Continued
June 30, 2004

CF 04-1 CDBG, Continued:

Effect: The net effect of this regulatory violation is that low- and moderate-income persons were not sufficiently targeted for these CDBG-funded programs in accordance with low- and moderate-income area benefit national objective pursuant to 24 CFR Part 570.208.

Recommendation: HUD is disallowing the \$115,024 cost charged to the CDBG program during program year 2001 for the Street Lights District 5/Westmont Area project because the project was undertaken in an ineligible area and does not meet the low- and moderate-income area benefit national objective. The City must submit accounting documentation verifying that the CDBG account was reimbursed for \$115,024 with nonfederal funds. The reimbursed funds must be committed and expended on a CDBG-eligible project(s) and should be reflected in the City's Program Year 2004 Action Plan.

Corrective Action Plan: The City Council approved substitute funding for the program in question in the amount of \$115,024. The City will submit the required accounting documentation to HUD to verify that the CDBG account was reimbursed the \$115,024 with nonfederal funds.

City of Pomona

**Summary Schedule of Prior Audit Findings
June 30, 2004**

For findings and questioned costs for federal awards, there were no audit findings or questioned costs required to be reported under *Government Auditing Standards* for the year ended June 30, 2003.

McGladrey & Pullen

Certified Public Accountants

Independent Accountant's Report on Applying Agreed-upon Procedures

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

We have performed the procedures enumerated below to the accompanying Appropriations Limit Calculation of the City of Pomona, California, (the City) for the year ended June 30, 2004. These procedures, which were agreed to by the City and the League of California Cities (as presented in the publication entitled *Agreed-upon Procedures Applied to the Appropriations Limitation Prescribed by Article XIII-B of the California Constitution*), were performed solely to assist the City in meeting the requirements of Section 1.5 of Article XIII B of the California Constitution. The City's management is responsible for the Appropriations Limit Calculation.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and our findings were as follows:

1. We obtained the completed internal calculations and compared the limit and annual adjustment factors included in those calculations to the limit and annual adjustment factors that were adopted by a resolution of the City Council. We also compared the population and inflation options included in the aforementioned calculations to those that were selected by a recorded vote of the City Council.

Finding: No exceptions were noted as a result of our procedures.

2. For the accompanying Appropriations Limit Calculation, we added line A, last year's limit, to line E, total adjustments, and compared the resulting amount to line F, this year's limit.

Finding: No exceptions were noted as a result of our procedures.

3. We compared the current year information presented in the accompanying Appropriations Limit Calculation to the supporting calculations described in item 1 above.

Finding: No exceptions were noted as a result of our procedures.

4. We compared the prior year Appropriations Limit presented in the accompanying Appropriations Limit Calculation to the prior year Appropriations Limit adopted by the City Council during the prior year.

Finding: No exceptions were noted as a result of our procedures.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the accompanying Appropriations Limit Calculation of the City. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriations limit for the base year, as defined by Article XIII B of the California Constitution.

This report is intended solely for the information and use of the Finance Committee, City Council and management of the City, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

McGladrey & Pullen, LLP

Irvine, California
November 15, 2004

City of Pomona

Appropriations Limit Calculation
Year Ended June 30, 2004

	Amount	Source
A. Last year's limit	<u>\$ 131,990,233</u>	
B. Adjustment factors:		
1. Population change	1.0177	State Finance
2. Per capita change	<u>1.0231</u>	State Finance
Total adjustment [(1 x 2)-1.0000]	<u>0.0412</u>	
C. Annual adjustment	<u>5,439,168</u>	(B x A)
D. Other adjustments:		
1. Lost responsibility (-)	-	
2. Transfer to private (-)	-	
3. Transfer to fees (-)	-	
4. Assumed responsibility (+)	-	
Subtotal	<u>-</u>	
E. Total adjustments	<u>5,439,168</u>	(C + D)
F. This year's limit	<u><u>\$ 137,429,401</u></u>	(A + E)