

# **City of Culver City**

Culver City, California

## **Single Audit and Independent Auditors' Reports**

*For the Year Ended June 30, 2016*





**City of Culver City  
Single Audit Report  
For the Year Ended June 30, 2016**

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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 *GOVERNMENTAL AUDITING STANDARDS***

***Independent Auditors' Report***

To the Honorable Mayor and Members of City Council  
of the City of Culver City  
Culver City, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Culver City, California (the "City") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 16, 2016.

**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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies as items number 2016-01 and 2016-02.

To the Honorable Mayor and Members of City Council  
of the City of Culver City  
Culver City, California  
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### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

### **The 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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*The PwC Group, LLP*

Santa Ana, California  
December 16, 2016



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

**Independent Auditors' Report**

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

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

We have audited the City of Culver City, California's (the "City") 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 June 30, 2016. The City's major federal programs are identified in the summary of the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance 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 June 30, 2016.

## **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 the Uniform Guidance, 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



To the Honorable Mayor and Members of City Council  
of the City of Culver City  
Culver City, California  
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**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 16, 2016 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic 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 basic 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 basic financial statements or to the basic 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 Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*The PwC Group, LLP*

Santa Ana, California  
March 27, 2017, except for Report on the Schedule of Expenditures of Federal Award as to which  
the dated is December 16, 2016

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**City of Culver City**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2016**

Federal Grantor/Pass - Through Grantor/Program Title	CFDA Number	Grant Award Number	Federal Expenditures	Amount Provided to Subrecipients
<b><u>U.S. Department of Housing and Urban Development</u></b>				
<b>CDBG - Entitlement Grants Cluster:</b>				
<i>Passed through the Community Development Commission of Los Angeles County:</i>				
Community Development Block Grant - Entitlement Grants	14.218	D96189-15	\$ 28,633	\$ -
<b>Total CDBG - Entitlement Grants Cluster</b>			<b>28,633</b>	<b>-</b>
<b>Housing Vouchers Cluster:</b>				
<i>Direct Program:</i>				
Section 8 Housing Choice Vouchers	14.871	CA 110	1,562,880	-
<b>Total Housing Vouchers Cluster</b>			<b>1,562,880</b>	<b>-</b>
<b>Total U.S. Department of Housing and Urban Development</b>			<b>1,591,513</b>	<b>-</b>
<b><u>U.S. Department of Justice</u></b>				
<i>Direct Program:</i>				
Bulletproof Vest Partnership Program	16.607	2004BUBX04022255	8,472	-
<i>Direct Program:</i>				
Edward Byrne Memorial Justice Assistance Grant	16.738	2015-DJ-BX-0161	10,991	-
Edward Byrne Memorial Justice Assistance Grant	16.738	2015-CD-BX-0071	5,719	-
<b>Subtotal - Program 16.738</b>			<b>16,710</b>	<b>-</b>
<i>Direct Program:</i>				
Equitable Sharing Program	16.922	CA 0191800	96,276	-
<b>Total U.S. Department of Justice</b>			<b>121,458</b>	<b>-</b>
<b><u>U.S. Department of Transportation</u></b>				
<b>Highway Planning and Construction Cluster:</b>				
<i>Passed through the California Department of Transportation:</i>				
Highway Planning and Construction - Higuera Street Bridge Program	20.205	5240026	19,372	-
Highway Planning and Construction - Citywide Bridge Program	20.205	5240033	2,157	-
Highway Planning and Construction - Traffic Signal Left Turn Signal	20.205	HSIP 6-07-00	19,211	-
Highway Planning and Construction - Safety Routs to School	20.205	5240030	132,507	-
Highway Planning and Construction - Real Time Motorist Information System	20.205	5240025	41,111	-
<i>Passed through the Los Angeles County Metropolitan Transit Authority:</i>				
Highway Planning and Construction - 2014 Ciclavia Open Street	20.205	920000000CYC14158	456,219	-
<b>Total Highway Planning and Construction Cluster</b>			<b>670,577</b>	<b>-</b>
<b>Federal Transit Cluster:</b>				
<i>Direct Program:</i>				
Federal Transit Capital and Operating Assistance Formula Grants (5307)	20.507	CA-90-Y853	36,000	-
Federal Transit Capital and Operating Assistance Formula Grants (5307)	20.507	CA-90-Z069	94,690	-
Federal Transit Capital and Operating Assistance Formula Grants (5307)	20.507	CA-96-Z252	3,239,669	-
<b>Total Federal Transit Cluster</b>			<b>3,370,359</b>	<b>-</b>

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**City of Culver City**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**For the Year Ended June 30, 2016**

Federal Grantor/Pass - Through Grantor/Program Title	CFDA Number	Grant Award Number	Federal Expenditures	Amount Provided to Subrecipients
<b><u>U.S. Department of Transportation (Continued)</u></b>				
<b>Highway Safety Cluster:</b>				
<i>Passed through California Office of Traffic Safety:</i>				
State and Community Highway Safety - 2015	20.600	PT15125	42,639	-
State and Community Highway Safety - 2016	20.600	PT1638	33,854	-
<b>Total Highway Safety Cluster</b>			<u>76,493</u>	<u>-</u>
<b>Minimum Penalties for Repeat Offenders for Driving While Intoxicated Program:</b>				
<i>Passed through California Office of Traffic Safety:</i>				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated - 2015	20.608	PT15125	25,956	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated - 2016	20.608	PT1638	33,277	-
<b>Total - Program 20.608</b>			<u>59,233</u>	<u>-</u>
<b>Total U.S. Department of Transportation</b>			<u>4,176,662</u>	<u>-</u>
<b><u>U.S. Department of Treasury</u></b>				
<i>Passed through City of La Verne</i>				
Equitable Sharing Program	21.CA 0191800	CA 0191800	17,258	-
<b>Total U.S. Department of Treasury</b>			<u>17,258</u>	<u>-</u>
<b><u>U.S. Department of Health and Human Services</u></b>				
<i>Passed through the Los Angeles County Department of Community and Senior Citizens' Services:</i>				
Special Programs for the Aging - Title III, Part B - Support Services	93.044	58247	703	-
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	58247	208,476	-
<b>Total U.S. Department of Health and Human Services</b>			<u>209,179</u>	<u>-</u>
<b><u>U.S. Department of Homeland Security</u></b>				
<i>Passed through the County of Los Angeles:</i>				
Emergency Management Performance Grant (EPMG)	97.042	2014-0070	31,195	-
<i>Passed through the California Office of Emergency Services:</i>				
Pre-Disaster Mitigation Grant	97.047	PDMC14-PL0290	120,035	-
<b>Total U.S. Department of Homeland Security</b>			<u>151,230</u>	<u>-</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 6,267,300</u>	<u>\$ -</u>

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**City of Culver City**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2016**

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**Note 1 – Reporting Entity**

The financial reporting entity, as defined by the Governmental Accounting Standard Board (“GASB”), consists of the primary government, which is the City of Culver City, California (the “City”), organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

**Note 2 – Basis of Accounting**

Funds received under the various grant programs have been recorded within the General Fund, enterprise funds and special revenue funds of the City. The City utilizes the modified accrual basis of accounting for the General Fund and special revenue funds and accrual basis of accounting for the enterprise funds. The accompanying Schedule of Expenditures of Federal Awards (“Schedule”) is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the “Uniform Guidance”). Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in, the preparation of the City’s basic financial statements.

**Note 3 – Schedule of Expenditures of Federal Awards**

The accompanying Schedule presents the activity of all federal financial assistance programs of the City. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through the State of California and County of Los Angeles is included in the Schedule. The Schedule was prepared from only the accounts of various grant programs and, therefore, does not present the financial position, change in fund balance, or results of operations of the City.

**City of Culver City**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2016**

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**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	2016-01, 2016-02
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major federal programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None Reported
Type of auditor’s report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	<u>Expenditures</u>
14.871	Housing Vouchers Cluster:	\$ 1,562,880
20.205	Highway Planning and Construction Cluster	<u>670,577</u>
	Total Expenditures of All Major Federal Programs	<u>\$ 2,233,457</u>
	Total Expenditures of Federal Awards	<u>\$ 6,267,300</u>
	Percentage of Total Expenditures of Federal Awards	<u>35.64%</u>

Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee in accordance with 2 CFR 200.520?	Yes

**City of Culver City**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2016**

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**Section II – Financial Statement Findings**

**A. Current Year Findings – Financial Statement Audit**

**Finding 2016-01 Internal Control Over Financial Reporting**

**Criteria:**

Management is responsible for designing, implementing, and maintaining appropriate internal control over financial reporting and compliance.

Internal control is defined as a process implemented and monitored by the City Council, management, and other personnel. The Internal Control System should be designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Reliability of financial reporting
- Effectiveness and efficiency of operations, and
- Compliance with applicable laws and regulations.

The Internal Control Framework would include establishing or enhancing guidance in the following areas:

- *Control environment* sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
- *Risk assessment* is the entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.
- *Control activities* are the policies and procedures that help ensure that management directives are carried out.
- *Information and communication* systems support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
- *Monitoring* is a process that assesses the quality of internal control performance over time.

**Condition:**

We noted internal control deficiencies across various accounting transaction cycles, which included, but was not limited to, the journal entries, budget control, revenues and cash receipts, accounts payable and expenditures, payroll and human resources, and risk management systems.

**Context:**

Statistical sampling was performed during interim internal control testing to draw sample selections. Lack of reviewing and monitoring processes might lead to misstatement to the financial statements.

**Effect:**

The City must establish an effective system of internal controls that would provide reasonable assurance regarding the City's objectives. An effective system of internal control ensures achieving the City's objective and may relate to all three objectives presented above.

**City of Culver City**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2016**

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**Section II – Financial Statement Findings (Continued)**

**A. Current Year Findings – Financial Statement Audit (Continued)**

**Finding 2016-01 Internal Control Over Financial Reporting (Continued)**

**Cause:**

The deficiencies noted involved a lack of policies and procedures that govern the City’s financial reporting process and system. The decentralized process inhibits Finance from being aware of all transactions taking place in a timely fashion to account for them in the accounting records and financial reports.

**Recommendation:**

We recommended that the City follow the adopted policies and procedures in order to enhance the internal control over financial reporting and to improve the communication among all departments throughout the City.

**Views of Responsible Officials and Planned Corrective Actions:**

Culver City engaged an external audit firm to conduct internal control review and enterprise risk assessment last year. During the year, the firm completed its initial phase of agency assessment and moved on to its second phase of conducting detailed fieldwork to further analyze operations. Once complete, recommended policies and procedures to advance internal control structure will be communicated throughout the City.



**City of Culver City**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2016**

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**Section II – Financial Statement Findings (Continued)**

**A. Current Year Findings – Financial Statement Audit (Continued)**

**Finding 2016-02 Lack of Segregation of Duties at the Transit Department**

**Criteria:**

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. No individual should control all key aspects of a transaction or event.

**Condition:**

During the interview of the billing, cash receipts, and the daily reconciliation process in the Transit Department, we noted that there is a lack of separation of duties. The person who prepared billing also recorded cash receipts. We also noted that the Department only performs the cash receipt reconciliation once a week.

**Context:**

Interviewed staff during the interim internal control testing.

**Effect:**

Lack of segregation of duties, oversight, and controls increases the risk of material misstatements to the financial statements.

**Cause:**

The City does not have the appropriate policies that addresses these issues.

**Recommendation:**

We recommended that the City adopt a formal policy maintaining segregation of duties and separate the responsibilities for authorizing, processing and reviewing all financial transactions.

**Views of Responsible Officials and Planned Corrective Actions:**

Culver City engaged an external audit firm to perform an internal control review and enterprise risk assessment. This firm is in the process of assisting us with tools and techniques needed to improve the operations such as cash receipts, billings, recordings and reconciliation duties. Management will maintain segregation of duties among the assigned staff in this department.

**City of Culver City**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2016**

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**Section II – Financial Statement Findings (Continued)**

**B. Prior Year Findings – Financial Statement Audit**

**Finding 2015-01 Lack of Segregation of Duties at the Transit Division**

**Condition:**

In the previous auditor's testing of internal controls over Transit cash receipts, it was noted the City had a lack of segregation of duties over the cash count, recording of cash receipts, and reconciliation. The same person in transit was performing all three functions on the transit side. Finance also performs the last two functions based on information received from transit.

**Recommendation:**

It was recommended that the duties be separated amongst available staff so that no one person can or does perform two out of three of the functions.

**Status:**

Uncorrected, see current year financial statement finding 2016-02

**City of Culver City**  
**Schedule of Findings and Questioned Costs (Continued)**  
**For the Year Ended June 30, 2016**

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**Section III – Federal Award Findings**

**A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit**

No federal award findings or questioned costs were noted as of June 30, 2016.

**B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit**

No federal award findings or questioned costs were noted as of June 30, 2015.