

CITY OF SANTEE
Santee, California

SINGLE AUDIT REPORT ON
FEDERAL AWARD PROGRAMS

Year Ended June 30, 2011

CITY OF SANTEE
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Year Ended June 30, 2011

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City Council
City of Santee
Santee, California

**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***

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Santee, California (the "City") as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 24, 2012. 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 as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Santee in a separate letter dated February 24, 2012.

This report is intended solely for the information and use of the City Council, management, others within the entity, 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.

Seaman Ramirez & Smith, Inc.

February 24, 2012

City Council
City of Santee
Santee, California

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Compliance

We have audited the City of Santee's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Santee's major federal programs for the year ended June 30, 2011. The City of Santee's major federal programs are identified in the summary of auditors' 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 of Santee's management. Our responsibility is to express an opinion on the City of Santee'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 of Santee'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 of the City of Santee's compliance with those requirements.

As described in item 2011-1 in the accompanying schedule of findings and questioned costs, the City of Santee did not comply with requirements regarding Cash Management that are applicable to its HOME Investment Partnership Program. Compliance with such requirements is necessary, in our opinion, for the City of Santee, to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Santee complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

Management of the City of Santee is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Santee's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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, 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 of Santee'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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Santee as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 24, 2012, which contained unqualified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Santee's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget 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 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 basic 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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 responses, and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the City Council, management, others within the entity, 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.

Teaman Ramirez & Smith, L.L.C.

February 24, 2012

CITY OF SANTEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal Domestic Assistance Number	Grant Identification Number	Program Expenditures
U.S. Department of Housing and Urban Development			
Direct Assistance:			
Community Development Block Grant	14.218	B08MC060568	\$ 142,951
Section 108 Loan	14.248		2,422
<i>Passed through the County of San Diego Housing Authority:</i>			
HOME Investment Partnership Program	14.239	M08DC06054	<u>200,000*</u>
Total U.S Department of Housing and Urban Development			<u>345,373</u>
U.S. Department of Agriculture			
Direct Assistance:			
United States Forest Service Cooperative Forestry Assistance	10.664	03-FI-110150200-002	<u>4,484</u>
Total U.S Department of Agriculture			<u>4,484</u>
U.S. Department of Transportation			
<i>Passed through the State of California Department of Transportation:</i>			
Highway Safety Improvement Program	20.205	HSIPL-5429(017)	4,785
Highway Safety Improvement Program	20.205	HSIPL-5429(018)	<u>4,489</u>
Total U.S. Department of Transportation			<u>9,274</u>
U.S. Department of Homeland Security			
<i>Passed through the City of San Diego Office of Homeland Security:</i>			
State Homeland Security Grant Training and Equipment	97.067	N/A	63,099
Direct Assistance:			
Staffing Adequate Fire and Emergency Response (SAFER) Hiring Grant	97.044	EMW-2005-FF-01031	<u>18,000</u>
Total U.S. Department of Homeland Security			<u>81,099</u>

Continued

CITY OF SANTEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued
Year Ended June 30, 2011

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal Domestic Assistance Number	Grant Identification Number	Program Expenditures
U.S. Department of Justice			
<i>Passed through the City of San Diego:</i>			
Edward Byrne Memorial Justice Assistance Grant (ARRA)	16.804	2009-SB-B9-0784	\$ 14,310
Total U.S. Department of Justice			<u>14,310</u>
U.S. Department of Energy			
Direct Assistance:			
Energy Efficiency and Conservation Grant (ARRA)	81.128	DE-SC0001975	<u>226,102</u>
Total U.S. Department of Energy			<u>226,102</u>
Total Federal Financial Assistance			<u>\$ 680,642</u>

*Major Program

CITY OF SANTEE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO THE SCHEDULE OF FEDERAL AWARDS

a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred (and related awards received) by the City of Santee that are reimbursable under programs of federal agencies providing financial assistance. For the purpose of this schedule, financial assistance includes both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City of Santee from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with 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 incurred when the City of Santee 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) Major Programs

The City had one major program for the year ended June 30, 2011, consisting of the U.S. Department of Housing and Urban Development HOME Investment Partnership Program Grant with total disbursements of \$200,000. This amount calculates to 29% of the total disbursements from federal awards.

CITY OF SANTEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of Auditors' Report Issued:	Unqualified
Internal Control Over Financial Reporting:	
Material Weakness(es) Identified?	No
Significant Deficiencies Identified not Considered to be Material Weaknesses?	No
Noncompliance Material to Financial Statements Noted?	No

Federal Awards

Internal Control Over Major Programs:	
Material Weakness(es) Identified?	No
Significant Deficiencies Identified not Considered to be Material Weaknesses?	No
Type of Auditors' Report Issued on Compliance for Major Programs:	Qualified
Any Audit Findings Disclosed that are Required to be Reported in Accordance With OMB Circular A-133, Section .510(a)?	Yes

Identification of Major Programs:

CFDA Numbers	Name of Federal Program or Cluster
14.239	HOME Investment Partnership Program

Dollar Threshold used to Distinguish Between Type A And Type B Programs:	\$ <u>300,000</u>
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Auditee Qualified as Low-Risk Auditee?	Yes
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CITY OF SANTEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no auditors' findings required to be reported in accordance with GAS.

CITY OF SANTEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2011-1 Cash Management

Federal Award: HOME Investment Partnership Program
CFDA #: 14.239 HOME Investment Partnership Program
Federal Agency: U.S. Department of Housing and Urban Development
Pass-through Entity: County of San Diego Housing Authority

Finding:

According to OMB Circular A-102 Common Rule, the City is required to disburse, to the extent available, program income, rebates, refunds, and other income and receipts related to the HOME Investment Partnership funds before requesting any additional reimbursement payments from the awarding agency.

During our testing of the compliance requirement listed above, we noted that the City requested for reimbursement from the County of San Diego's Housing Authority before exhausting all available program income. It should be noted; however, at the end of the fiscal year 2010-11, the City exhausted all available program income.

Recommendation:

We recommend the City establish procedures to ensure that all available program income is exhausted prior to requesting reimbursement from the reimbursing agency.

Corrective Action Plan:

Before submitting HOME Investment Partnership program reimbursement requests, staff will request a report from the Accountant which reflects the balance (if any) of unspent program income. The amount of all reimbursement requests will be reduced accordingly by the balance of any unspent program income.

CITY OF SANTEE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2011

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

There were no prior year audit findings.