

CITY OF ROSEVILLE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2012

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CITY OF ROSEVILLE
SINGLE AUDIT REPORT
For The Year Ended June 30, 2012

TABLE OF CONTENTS

	<u>Page</u>
Schedule of Findings and Questioned Costs	1
Section I - Summary of Auditor's Results	1
Section II – Financial Statement Findings	2
Section III – Federal Award Findings and Questioned Costs	2
Section IV - Status of Prior Year Findings and Questioned Costs	7
Schedule of Expenditures of Federal Awards	8
Notes to Schedule of Expenditures of Federal Awards	11
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 <i>Government Auditing Standards</i>	13
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	15

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CITY OF ROSEVILLE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2012**

SECTION I—SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? X Yes None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

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

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? X Yes None Reported

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#(s)	Name of Federal Program or Cluster
<u>20.205</u>	<u>Highway Planning and Construction</u>
<u>20.507</u>	<u>ARRA – Federal Transit - Formula Grants (Urbanized Area Formula Program)</u>
<u>14.871</u>	<u>Section 8 Housing Choice Vouchers</u>
<u>14.218,</u> <u>14.253</u>	<u>ARRA - Community Development Block Grants</u>
<u>81.128</u>	<u>ARRA – Energy Efficiency and Conservation Block Grant Program</u>
<u>16.710</u>	<u>Public Safety Partnership and Community Policing Grants</u>

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit disclosed significant deficiencies, but no material weaknesses or instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated January 17, 2013 which is an integral part of our audits and should be read in conjunction with this report.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Our audit disclosed the following findings and questioned costs required to be reported in accordance with section 510(a) of OMB Circular A-133:

Finding 2012-01:	Cash Management – Draw Down of Community Development Block Grant Funds in Advance of Expenditures
CFDA number:	14.218, 14.253
CFDA Title	CDBG Entitlement Grants Cluster - Community Development Block Grant/Entitlement Grants ARRA - Community Development Block Grants ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded) Neighborhood Stabilization Program
Name of Federal Agency:	Department of Housing and Urban Development
Pass-through Entity:	California Department of Housing and Community Development

Criteria: In accordance with 24 CFR Part 85.22, payment methods shall minimize the time elapsing between the transfer of funds from the United States Treasury and the issuance or redemption of checks, warrants, or payment by other means by the recipients. In addition, the Cash Management provisions of OMB Circular A-133 require that when grants are funded on a reimbursement basis, program costs must be paid for by City funds before reimbursement is requested from the grantor. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. Generally, a grant is determined to be on the reimbursement basis if grant expenditures are incurred within three days of receiving the grant funds.

Condition: During our testing of grants and loans funded with Community Development Block Grant monies, we noted that four rehabilitation grants (\$5,000 each) and one loan (\$11,700) were drawn down when they were committed rather being than drawn down after the expenditures were incurred, and three of the grants were not fully disbursed to the recipients as follows:

1. \$5,000 rehabilitation grant was reimbursed by the grantor on March 21, 2012. Although the grant had been approved for the recipient in December 2011, the recipient decided not to pursue the assistance and the grant was cancelled in January 2012. The \$5,000 was returned to the grantor by reducing a reimbursement request on April 26, 2012.
2. \$5,000 rehabilitation grant was reimbursed by the grantor on March 21, 2012. Although the initial grant approved for the recipient in that amount, the actual grant amount disbursed to the recipient paid on June 22, 2012 was only \$2,895, and the balance of the grant of \$2,105 was not disbursed to the recipient until November 16, 2012.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

3. \$5,000 rehabilitation grant was reimbursed by the grantor on June 21, 2012. Although the initial grant approved for the recipient in that amount, the actual grant amount disbursed to the recipient paid June 29, 2012 was only \$4,257. An additional disbursement to the recipient of \$295 was not paid until January 18, 2013. The unexpended balance of the grant of \$448 has not yet been returned to the grantor.
4. \$5,000 rehabilitation grant was reimbursed by the grantor on March 21, 2012, however the grant was not disbursed to the recipient until May 4, 2012.
5. \$11,700 loan was reimbursed by the grantor on October 6, 2011, but was not disbursed until October 13, 2011.

These rehabilitation grant and loan amounts were included in requests for reimbursement prior to the actual disbursement to the recipients and although disbursement occurred at a later date for most of the transactions, disbursement should always precede reimbursement from the grantor.

Questioned Costs: We question costs in the amount of \$448, which consist of the net ineligible costs left to be returned to the grantor for grant expenditures that were not incurred by the City.

Effect: Drawing down funds in advance does not minimize the time elapsing between receipt of funds and expenditures and is not in compliance with 24 CFR Part 85.22 and the Cash Management provisions of OMB Circular A-133.

Cause: When the City approves rehabilitation grants and loans the City establishes a separate project for the Accounts Payable department to pay invoices for those projects. These rehabilitation grant and loan amounts were included in requests for reimbursement prior to the actual disbursement to the recipients.

Recommendation: The City should not draw down funds until expenditures have been incurred and should minimize the time elapsing between the draw down and the expenditure to three days or less. The City should ensure that the amounts reimbursed in excess of actual expenditures are returned to the grantor in a timely manner. In addition, the City should determine whether the interest earned on the grant funds advanced need to be returned to the grantor.

View of Responsible Officials and Planned Corrective Actions

Name of contact person: Esmerita Rivera, 916-774-5469

Corrective Action: Although staff agrees funds were drawn before the expenditures were incurred, for the three draws indicated in the finding, none exceeded expenditures in total. All grant expenditures were recorded in fiscal year 2012 with the remainder recorded in fiscal year 2013.

In response to item #3, although the funds were drawn and received on June 21, 2012, the bulk of the expenditures were paid by June 29, 2012 with the remainder paid in FY2013. Unspent funds are always credited against other future draws, therefore no funds are returned to HUD.

CDBG funds do not have an interest allocation, therefore no interest was earned and thereby none payable to HUD.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

City staff has adjusted their procedures to ensure that grant funds are expended before grant funds are drawn from HUD by running an IFAS report by the homeowner project number. This report indicates the total amount of expenditures that are eligible to be reimbursed.

Finding 2012-02: Accurate Preparation of Schedule of Expenditures of Federal Awards
CFDA number: 14.218, 14.253
CFDA Title CDBG Entitlement Grants Cluster -
Community Development Block Grant/Entitlement Grants
ARRA - Community Development Block Grants ARRA
Entitlement Grants (CDBG-R) (Recovery Act Funded)
Neighborhood Stabilization Program
Name of Federal Agency: Department of Housing and Urban Development
Pass-through Entity: California Department of Housing and Community Development

Criteria: In accordance with the requirements of OMB Circular A-133 and the Single Audit Act, the City should report all federal expenditures in the Schedule of Expenditures of Federal Awards (SEFA) each fiscal year.

Condition: In reviewing the expenditure details that supported expenditure detail for the Community Development Block Grants ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded), we noted that expenditures for the year ended June 30, 2011 totaling \$87,019 had been excluded from the SEFA in the prior fiscal year. These expenditures should have been reported on the fiscal year 2010-11 SEFA.

Effect: Excluding program expenditures from the SEFA results in the City being out of compliance with the requirements the grant agreements and OMB Circular A-133.

Cause: The CDBG-ARRA grant was included on the SEFA during the interim phase of the audit, however, it was inadvertently excluded from the final fiscal year 2011 SEFA due to staff oversight.

Recommendation: The City should develop procedures to ensure that all annual expenditures for grants are included on the SEFA in the correct fiscal year.

View of Responsible Officials and Planned Corrective Actions

Name of contact person: Melissa Hagan, 916-774-5476

Corrective Action: Staff has instructed the Grant Administrator to code all federal grants in IFAS in order to ensure that all federal grants are included on the grant reports that are used to assist in preparing the SEFA.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2012-03: Compliance with FTA Reporting Requirements
CFDA number: 20.507
CFDA Title Federal Transit – Formula Grants (Urbanized Area Formula Program)
Name of Federal Agency: Department of Transportation

Criteria: The reporting requirements of the OMB Circular A-133 Compliance Supplement for the Federal Transit-Formula Grants require the submission of a quarterly SF-425 Federal Financial Report (FFR). The FFR data is then incorporated into Quarterly Narrative Reports (QNR).

Condition: We selected the FFRs for testing the quarters ending March 2012 and June 2012 for grants CA-96-X082 and CA-90-Y773. City staff was unable to locate the FFRs for those periods, but was able to provide copies of the QNRs for the period ending June 30, 2012 that indicated that the FFRs had been submitted for that period. City staff could not provide copies of the QNRs for the period ending March 31, 2012.

Effect: The City did not file the FFRs or QNRs for the period ended March 31, 2012 and therefore was not in compliance with the grantor reporting requirements for that period.

Cause: The staff responsible for completing and filing the FFRs and QNRs unexpectedly left the City and her duties were not reassigned to another staff person in time to file the FFRs and QNRs for the period ended March 31, 2012.

Recommendation: The City should ensure proper staffing during personnel transition so grantor reporting requirements are fulfilled.

View of Responsible Officials and Planned Corrective Actions

Name of contact person: Eileen Bruggeman, 916-774-5449

Corrective Action: The City had taken corrective action by the following reporting period, June 2012. The City will continue to ensure it maintains properly trained staff to continue filing FFRs and Quarterly Narrative Reports as required by the FTA.

Finding 2012-04: Payroll Charges in Excess of Actual Payroll Costs
CFDA number: 20.205
CFDA Title Highway Planning and Construction
Name of Federal Agency: Department of Transportation
Pass-through Entities: California Department of Transportation
Placer County Transportation Planning Agency

Criteria: The OMB Circular A-87 Attachment B, Section 8(b) requires that payroll charges to grants be consistent with that paid for similar work in other activities of the governmental unit. That means the employee hourly rate charged to the federal grant should be the same as the employee's hourly rate charged to all other City activities.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Condition: During our testing of payroll charges to the Industrial Avenue Bridge Replacement and Oakridge Bridge Replacement projects, we noted one employee’s pay rate charged to the grant was \$84, but his actual pay rate for that pay period was \$79. The grant had been charged a total of 13 hours at the incorrect pay rate or a total of \$65. When we questioned the error, the City discovered that although the employee was paid at the correct rate of \$79 per hour, an error in their payroll allocation system charged the grant for the employee’s rate at the highest step during that pay period, or \$84 per hour. The system error appears to be caused by a coding problem in the Timekeeping system.

Questioned Costs: We question costs in the amount of \$65.

Effect: The City is not in compliance with the compensation cost principles of OMB Circular A-87 and has charged the federal grant more than actual costs incurred. Although this error may affect other payroll costs charged to the grant, it appears to affect only employees that are not at top step pay rate and therefore does not have a material effect on the grant.

Cause: The payroll allocation system contains a coding error that charges employee time at the highest step pay rate when the employee is working “out of class.”

Recommendation: The City should correct the payroll allocation system to ensure that employee hourly rates are charged to grants at the correct pay rate, and the City should review all employee pay rates charged to grants to determine the extent of the error in all federal grants. In addition, the City should ensure that the amounts reimbursed in excess of actual expenditures are returned to the grantor in a timely manner. Finally, the City should determine whether the interest earned on the ineligible grant funds needs to be returned to the grantor.

View of Responsible Officials and Planned Corrective Actions

Name of contact person: Kristi Corral, 916-774-5316

Corrective Action: Payroll will correct the classification of the grant in the Timekeeping system.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS –

Prepared by Management

Financial Statement Prior Year Findings

We have included the current status of the prior significant deficiency in our Memorandum of Internal Control dated January 17, 2013 which is an integral part of our audit and should be read in conjunction with this report.

Federal Award Prior Year Findings and Questioned Costs

<i>Finding 2011-01</i>	Recording General Ledger Activity in Correct Grant Account
<i>CFDA number:</i>	14.239
<i>CFDA Title:</i>	Home Investment Partnerships Program
<i>Name of Federal Agency:</i>	U.S. Department of Housing and Urban Development
<i>Name of pass-through Entity:</i>	California Department of Housing and Community Development

Criteria: OMB-Circular A-87, Attachment A, Section C #1j, Basic Guidelines, costs must be adequately documented to be allowable under Federal awards, and generally accepted accounting principals require that activity be recorded in the correct general ledger fund.

Condition: The City received a grant from the 2008 Home Investment Partnerships Program to fund the Owner-Occupied Rehabilitation Program and the First Time Homebuyer Program. The City requested and received reimbursement of \$18,386 under the program in July 2010 for an eligible rehabilitation loan made in fiscal year 2010. In fiscal year 2010, the expenditure related to the issuance of the loan had been recorded in the City's CalHome Grant Fund, because the loan agreement indicated that CalHome, not the Home Investment Partnerships Program, was the funding source of the loan and the loan was recorded as an expenditure and loan receivable in the CalHome Grant Fund. The Home Investment Partnerships Program reimbursement request was not reconciled to the general ledger activity to determine that applicable costs were included in the reimbursement and the correct general ledger fund.

In fiscal year 2011 the City amended the loan agreement to indicate a change in the funding source from CalHome monies to Home Investment Partnerships Program monies. As a result of the amendment, the Senior Program Technician II prepared a journal entry to reclassify the loan expense and associated loan receivable from the CalHome Grant Fund to the Home Investment Partnerships Program Fund, but the journal entry was not recorded in the general ledger.

Effect: The expenditure and loan receivable were not recorded in the Home Investment Partnerships Program Fund, but the loan was funded by the Home Investment Partnerships Program.

Cause: The Housing Financial Analyst II did not record the journal entry to record the loan expenditure in the correct grant fund.

Recommendation: Changes in grant funding should be reviewed to ensure all associated journal entries are recorded in the general ledger timely. In addition, reimbursement requests should be reconciled to general ledger activity, again to ensure any associated adjustments have been posted.

Current status: Financial staff responsible for drafting journal entries have program staff review on a monthly basis to ensure the appropriate grant is being charged.

CITY OF ROSEVILLE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number or Pass-Through Identifying Number	Federal Expenditures
Department of Housing and Urban Development Programs:			
Direct:			
Section 8 Housing Choice Vouchers	14.871		<u>\$4,840,497</u>
CDBG – Entitlement Grants Cluster:			
Direct:			
Community Development Block Grants/Entitlement Grants Program Expenditures	14.218	B-11-MC-06-0043	403,502
Subgrants			121,115
ARRA - Community Development Block Grants ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded) Program Expenditures	14.253	B-09-MY-06-0043	5,196
Subgrants			121,738
Pass-Through from:			
California Department of Housing and Community Development Neighborhood Stabilization Program - Community Development Block Grants	14.218	09-NSP1-6122	<u>1,080</u>
Program Subtotal			<u>652,631</u>
Pass-Through from:			
California Department of Housing and Community Development Home Investment Partnerships Program	14.239	2008-HOME-4695	<u>15,224</u>
Total Department of Housing and Urban Development			<u>5,508,352</u>
Department of Justice Programs			
Direct:			
Juvenile Accountability Incentive Block Grant FY11-12	16.523	CSA 118-11	33,704
FY 2011 Justice Assistance Grant	16.579	2011-DJ-BX-2937	31,305
Bulletproof Vest Program	16.607		8,220
Public Safety Partnership and Community Policing Grants	16.710	2009CKWX0462	383,000
ARRA - 2009 Edward Byrne Memorial Justice Assistance Grant	16.804	2009-DJ-BX-0848	<u>5,910</u>
Total Department of Justice			<u>462,139</u>
Department of Transportation Programs:			
Direct:			
Federal Transit - Formula Grants (Urbanized Area Formula Program) ARRA - 2009 Section 5307 Bus Rehabilitation Maintenance	20.507	CA-96-X082	196,396
Preventative Maintenance and Bus Purchase	20.507	CA-90-Y773	<u>670,661</u>
Program Subtotal			<u>867,057</u>
Pass-Through from:			
UC Berkeley - Safety Transportation Research and Education Center State and Community Highway Safety - OTS Sobriety Checkpoint Minigrant FY10-11	20.600	SC11355	<u>8,350</u>
Sacramento Area Council of Governments New Freedom Program - Upgrade Dispatch Center	20.521	CA 57-X012	200,000
New Freedom Program - FY 2009	20.521	CA 57-X043	<u>11,432</u>
Program Subtotal			<u>211,432</u>
Highway Planning and Construction Placer County Transportation Planning Agency CMAQ Grant - TSM	20.205	CML-6158(040)	35,876
California Department of Transportation Harding-Royer Park Bike Trail	20.205	CML03-5182(047)	40,369
Eureka I-80 On Ramp	20.205	HPLUL-5182(061) & (062)	632,146
Dry Creek Greenway Community Plan/Outreach	20.205	CML 5182(058)	3,478
Congestion Management Hub Project	20.205	CML 5182(053)	5,925
Industrial Avenue Bridge Replacement	20.205	BRLS-5182(056)	12,832
Oakridge Bridge Replacement	20.205	BRLS-5182(057)	15,560
Safe Route to School	20.205	SRTSLNI-5182(044)	47,210
ARRA - 2010 Arterial Microsurface	20.205	ESPLSTP 5182(055)	<u>880,803</u>
Program Subtotal			<u>1,674,199</u>
Total Department of Transportation			<u>2,761,038</u>

CITY OF ROSEVILLE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number or Pass-Through Identifying Number	Federal Expenditures
Department of Homeland Security Program:			
Direct:			
Assistance to Firefighters Grant FY11	97.044	EMW-2011-FO-02544	<u>248,000</u>
Pass-Through from:			
State of California Emergency Management (CalEMA) Multi-Hazard Plan Update	97.047	2009-002	<u>116,221</u>
Placer County Homeland Security Grant Program - Police	97.067	2009-0019	19,312
Homeland Security Grant Program - Narrow Banding	97.067	2010-0085	<u>1,003</u>
Program Subtotal			<u>20,315</u>
Placer County Homeland Security Bufferzone Protection	97.078	2008-0008	59,314
Homeland Security Grant (Fire)	97.078	2009-0019	3,879
Homeland Security Grant (Police)	97.078	2010-0085	<u>46,360</u>
Program Subtotal			<u>109,553</u>
Total Department of Homeland Security			<u>494,089</u>
Department of Commerce Program:			
Pass-Through from:			
City of Sacramento Public Safety Interoperable Communications Grant Program	11.555	G11006100	<u>143,333</u>
Department of the Interior Program:			
Direct:			
Bureau of Reclamation Expansion of Commercial and Multi Family Toilet Rebate Program and Expansion of Commercial landscape Irrigation Efficiency Program	15.530	R11AP20092	<u>45,594</u>
Department of Institute of Museum and Library Services Program:			
Pass-Through from:			
California State Library Grants to States (Library Service and Technology Act) Northern California Storybook & Literature Festival Grant	45.310	40-7954	<u>10,000</u>
Department of Energy Program:			
Direct:			
ARRA - Energy Efficiency and Conservation Block Grant Program	81.128	DE-SC0002596	<u>440,162</u>
Total Expenditures of Federal Awards			<u><u>\$9,864,707</u></u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

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CITY OF ROSEVILLE

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2012**

NOTE 1-REPORTING ENTITY

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the City of Roseville, California and its component units as disclosed in the notes to the Basic Financial Statements.

NOTE 2-BASIS OF ACCOUNTING

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

NOTE 3-DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS

Federal awards may be granted directly to the City by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the City. The Schedule includes both of these types of Federal award programs when they occur.

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**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***

Honorable Mayor and City Council
of the City of Roseville, California

We have audited the financial statements of the City of Roseville as of and for the year ended June 30, 2012, and have issued our report thereon dated January 17, 2013. The report includes a special emphasis paragraph concerning the dissolution of the Redevelopment Agency. We conducted our audit in accordance with generally accepted auditing standards 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

Management of the City of Roseville is responsible for establishing and maintaining effective 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. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. These are listed as items in our separately issued Memorandum on Internal Control dated January 17, 2013. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City 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 have also issued a separate Memorandum on Internal Control dated January 17, 2013 which is an integral part of our audits and should be read in conjunction with this report.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

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

Mane & Associates

January 17, 2013

**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**

Honorable Mayor and City Council
of the City of Roseville, California

Compliance

We have audited City of Roseville'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's major federal programs for the year ended June 30, 2012. 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 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. 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 of the City's compliance with those requirements.

In our opinion, the City 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, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Compliance

Management of the City 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'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'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. However, we identified certain deficiencies in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as items 2012-01 and 2012-04. 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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the City as of and for the year ended June 30, 2012, and have issued our report thereon dated January 17, 2013 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's 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 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 other 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.

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 management, City Council, 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.

Mane & Associates

February 28, 2013

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