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CITY OF CARLSBAD
Carlsbad, California

SINGLE AUDIT REPORT ON EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2009

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CITY OF CARLSBAD

SINGLE AUDIT REPORT ON EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2009

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REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

City Council
City of Carlsbad, California

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Carlsbad, California, as of and for the year ended June 30, 2009, which collectively comprise the City of Carlsbad's basic financial statements and have issued our report thereon dated November 6, 2009. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Carlsbad'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.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Carlsbad'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 of Carlsbad's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Carlsbad's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be 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.

We noted certain matters which were not considered material weaknesses or significant deficiencies that we reported to the management of the City of Carlsbad in a separate letter dated November 6, 2009.

This report is intended solely for the information and use of the City Council, and management of the City of Carlsbad and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
November 6, 2009

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

City Council
City of Carlsbad, California

Compliance

We have audited the compliance of the City of Carlsbad, California, 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, 2009. The City of Carlsbad'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 its major federal programs is the responsibility of the City of Carlsbad's management. Our responsibility is to express an opinion on the City of Carlsbad'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 Carlsbad'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 Carlsbad's compliance with those requirements.

In our opinion, the City of Carlsbad, California 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, 2009.

Internal Control Over Compliance

The management of the City of Carlsbad 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 Carlsbad'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, 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 Carlsbad's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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, business-type activities, each major fund, and the aggregate remaining fund information of the City of Carlsbad as of and for the year ended June 30, 2009, and have issued our report thereon dated November 6, 2009. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City of Carlsbad'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 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 for the information and use of the City Council, management of the City of Carlsbad, 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.

Mayer Hoffman McCann P.C.

Irvine, California
November 6, 2009

CITY OF CARLSBAD

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Fed. Domestic Assistance Number	Pass-through Entity Identifying Number	Program Expenditures	Amount Provided to Subrecipients
U.S.Department of Housing and Urban Development:				
Direct Programs:				
Community Development Block Grant	14.218	B-06-MC-060563	$ 45,235	$ -
Community Development Block Grant	14.218	B-07-MC-060564	514,768	
Community Development Block Grant	14.218	B-08-MC-060563	474,618	931,378
Subtotal			1,034,621	931,378
Section 8 Housing Choice Voucher Program	14.871	CA077VO	6,158,420 *	-
Pass-through County of San Diego:				
HOME Investment Partnership Program	14.239	39673	816,867 * (1)	-
Subtotal - U.S. Department of Housing and Urban Development			8,009,908	931,378
U.S. Department of the Interior:				
Direct Programs:				
National Parks Service: Save Americas Treasures	15.929	06-04-ML-0007	197,535	-
U.S. Department of Justice:				
Direct Programs:				
Narcotics Forfeitures & Seizures	16.999	N/A	249,395	-
Edward Bryne Memorial Grant (2007)	16.580	2007-DJBX-0802	40,818	-
Subtotal - U.S. Department of Justice			290,213	-
U.S. Department of Transportation:				
Direct Programs:				
Federal Highway Administration (FHWA)				
2005 Storms Reimb. On Federal Roads	20.205	N/A	75,418	-
Pass-through State Department of Transportation:				
Intermodal Surface Transportation Efficiency Act - Coastal Rail Trail Project	20.205	CML-5308(005)	90,445	-
Subtotal - U.S. Department of Transportation			165,863	-

* Major programs

(1) Expenditures in the amount of $689,393 were incurred in fiscal year ended June 30, 2008. However, these expenditures were not previously reported on the June 30, 2008 Schedule of Expenditures of Federal and Selected State Awards.

CITY OF CARLSBAD

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Fed. Domestic Assistance Number	Pass-through Entity Identifying Number	Program Expenditures	Amount Provided to Subrecipients
National Foundation on the Arts and Humanities:				
Pass-through the California State Library				
LSTA Library Grant Award - Public Staff Education	45.310	40-6252	3,300	-
Subtotal - National Foundation on the Arts and Humanities			3,300	-
U.S. Department of Health and Human Services:				
Pass-through the County of San Diego:				
Special Programs for the Aging - Title III-B	93.044	45811	30,945	-
Special Programs for the Aging - Title III-C	93.045	45811	152,969	-
Subtotal - U.S. Department of Health and Human Services			183,914	-
Total Federal Awards			$ 8,850,733	$ 931,378

* Major program

CITY OF CARLSBAD

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2009

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

(a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred (and related awards received) by the City of Carlsbad, California (City) that are reimbursable under federal programs of federal financial assistance. For purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from non-federal entities. Only the portion of program expenditures reimbursable with such federal funds are reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized and the portion of 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 recognized when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported include any property or equipment acquisitions incurred under the federal program.

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

(c) Subrecipients

For the fiscal year ended June 30, 2009, payments to subrecipients consisted of the following:

Community Development Block Grant

Brother Benno Foundation	$ 5,000
Hospice of the North Coast	5,000
North County Community Services Food Bank	5,000
North County Health Services	9,953
Catholic Charities	5,000
Interfaith Community Services	4,636
Solutions for Change	5,000
Women's Resource Center	5,000
Boys and Girls Club Teen Scene	10,000
Casa de Amparo	4,953
From the Inside Out	4,953
Lifeline Community Services	10,000
Boys and Girls Club Facility Improvement	2,525
United We Paint	49,925
TERI Property Acquisition	795,000
Center for Social Advocacy	9,433
Total	$931,378

CITY OF CARLSBAD

SUMMARY OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2009

(A) Summary of Auditors' Results

1. An unqualified report was issued by the auditors on the financial statements of the auditee.
2. There were no material weaknesses in internal control over financial reporting based upon our audit of the financial statements of the auditee.
3. The audit disclosed no instances of noncompliance which is material to the financial statements of the auditee.
4. There were no material weaknesses in internal control over major programs of the auditee.
5. An unqualified report was issued by the auditors on compliance for major programs.
6. The audit disclosed no audit findings required by the auditors to be reported under paragraph .510(a) of OMB Circular A-133.
7. The programs tested as major programs of the auditee were the U.S. Department of Housing and Urban Development - Section 8 Housing Choice Voucher Program, CFDA No. 14.871 and U.S. Department of Housing and Urban Development - HOME Investment Partnership Program, CFDA No. 14.239.
8. The dollar threshold used to distinguish Type A and Type B programs was $300,000.
9. The auditee met the criteria to be classified as a low risk auditee for the year ended June 30, 2009, for purposes of major program determination.

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

There were no audit findings required to be reported in accordance with GAGAS.

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) at OMB Circular A-133

There are no auditors' findings to be reported in accordance with paragraph .510(a) of OMB Circular A-133.

CITY OF CARLSBAD

STATUS OF PRIOR AUDIT FINDINGS

Year ended June 30, 2009

There were no prior audit findings for the year ended June 30, 2008.