

CITY OF LA HABRA, CALIFORNIA
SINGLE AUDIT OF FEDERALLY ASSISTED
GRANT PROGRAMS

JUNE 30, 2016

CITY OF LA HABRA

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INDEPENDENT AUDITORS' 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*

The Honorable Mayor and
Members of the City Council
of the City of La Habra
La Habra, 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 La Habra, 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 January 27, 2017.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding Number 2016-001 to be a material weakness.

Internal Control over Financial Reporting (Continued)

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Finding Numbers 2016-002 and 2016-003 to be significant deficiencies.

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*.

City's Responses to the 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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

White Nelson Nick Evans LLP

Irvine, California
January 27, 2017

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

The Honorable Mayor and
Members of the City Council
of the City of La Habra
La Habra, California

Report on Compliance for Each Major Federal Program

We have audited the City of La Habra, 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 auditors' 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.

Auditors' 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* (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.

Other Matter

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Finding Number 2016-004. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response is not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Report on Schedule of Expenditures of Federal Awards Required by 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 January 27, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming 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.

White Nelson Dick Evans LLP

Irvine, California
January 27, 2017

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

CITY OF LA HABRA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2016

Federal Grantor / Pass - Through Grantor / Program / Cluster Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Subrecipient Expenditures
<u>United States Department of Agriculture:</u>				
Passed through State of California Department of Education:				
Child and Adult Care Food Program	10.558	04320-CACFP-30-GM-CS	\$ 274,968	\$ -
Child and Adult Care Food Program	10.558	04320-CACFP-30-GM-DCH	1,524,246	1,330,911
Total United States Department of Agriculture			1,799,214	1,330,911
<u>United States Department of Housing and Urban Development:</u>				
Direct Assistance:				
Community Development Block Grant	14.218	B-15-MC-06-0582	406,089	50,930
Total United States Department of Housing and Urban Development			406,089	50,930
<u>United States Department of Justice:</u>				
Direct Assistance:				
Bulletproof Vest Partnership Program	16.607	2014BUBX14073805	17	-
Bulletproof Vest Partnership Program	16.607	2015BUBX15075896	2,705	-
Bulletproof Vest Partnership Program	16.607	2016BUBX16080548	1,357	-
Total Bulletproof Vest Partnership Program			4,079	-
Public Safety Partnership and Community Policing Grants	16.710	2012UMWX0192	44,422	-
Passed through County of Orange Sheriff's Department				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-0057	12,704	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-1065	6,662	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-DJ-BX-0038	1,413	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJ-BX-0226	1,244	-
Total Edward Byrne Memorial Justice Assistance Grant Program			22,023	-
Total United States Department of Justice			70,524	-
<u>United States Department of Labor:</u>				
Passed through California Orange Community Services Agency:				
WIA/WIOA Youth Activities	17.259	55-20-14	282,643	-
WIA/WIOA Youth Activities	17.259	55-2I-14	85,545	-
Total United States Department of Labor			368,188	-
<u>United States Department of Transportation:</u>				
Passed through California State Transportation Agency:				
State and Community Highway Safety	20.600	PT1521	6,821	-
State and Community Highway Safety	20.600	PT1634	42,982	-
Total State and Community Highway Safety			49,803	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT1521	28,125	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT1634	53,773	-
Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated			81,898	-
Recreational Trails Program	20.219	12-ORA-O-LHB	8,356	-
Total United States Department of Transportation			140,057	-

See accompanying notes to the Schedule of Expenditures of Federal Awards.

(Continued)

CITY OF LA HABRA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)

For the year ended June 30, 2016

Federal Grantor / Pass - Through Grantor / Program / Cluster Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Subrecipient Expenditures
<u>United States Department of Treasury:</u>				
Direct Assistance:				
Equitable Sharing Program	21.000	CA0301200	\$ 179,625	\$ -
Total United States Department of Treasury			179,625	-
<u>United States Department of Health and Human Services:</u>				
Child Care Development Fund Cluster:				
Passed through State of California Department of Education:				
Child Care and Development Block Grant	93.575	CCTR-5156	232,856	57,160
Child Care and Development Block Grant	93.575	CSPP-5305	32,193	-
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	CCTR-5156	423,244	103,894
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	CSPP-5305	93,857	-
Total Child Care Development Fund Cluster			782,150	161,054
Passed through Orange County Head Start:				
Head Start	93.600	09-CH9155-01	1,609,318	-
Total United States Department of Health and Human Services			2,391,468	161,054
<u>United States Department of Homeland Security:</u>				
Passed-through California Emergency Management Agency				
Emergency Management Performance Grant	97.042	2015-0049	9,220	-
Total United States Department of Homeland Security			9,220	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 5,364,385	\$ 1,542,895

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CITY OF LA HABRA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2016

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of La Habra, California (the City) under programs of the federal government as well as federal financial assistance passed through other government agencies for the year ended June 30, 2016. The information in this 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* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial statements of the City. The City's reporting entity is defined in Note 1 of the notes to the City's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the Schedule are reported using the modified accrual basis of accounting for governmental funds and the accrual basis for proprietary funds, which is described in Note 1 of the notes to the City's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. INDIRECT COST RATE:

The City has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

4. RELATIONSHIP TO COMPREHENSIVE ANNUAL FINANCIAL REPORT:

Amounts reported in the accompanying Schedule agree to amounts reported within the City's Comprehensive Annual Financial Report.

5. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule agree with amounts reported in federal financial reports.

6. CONTINGENCIES:

Under the terms of federal and state grants, additional audits may be requested by the grantor agencies and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

CITY OF LA HABRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2016

1. SUMMARY OF AUDITORS' RESULTS:

Financial Statements

Type of auditors' report issued:

- Unmodified

Internal control over financial reporting:

- Material weakness identified? yes no
See Finding Number 2016-001
- Significant deficiencies identified? yes none reported
See Finding Numbers 2016-002 and 2016-003

Noncompliance material to financial statements noted: yes no

Federal Award:

Internal control over major programs:

- Material weakness identified? yes no
- Significant deficiency identified? yes none reported

Type of auditors' report issued on compliance for major programs:

- Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a) of the Uniform Guidance?

yes no

See Finding Number 2016-004

Identification of major programs:

CFDA Number

10.558

Name of Federal Program or Cluster

United States Department of Agriculture, Passed through State of California Department of Education, Child and Adult Care Food Program

14.218

United States Department of Housing and Urban Development, Direct Assistance, Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

yes no

CITY OF LA HABRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2016

2. FINDINGS - FINANCIAL STATEMENT AUDIT:

MATERIAL WEAKNESS

Finding Number 2016-001

Criteria

Typically deposits are refundable upon satisfaction of certain City terms, or the deposits are reduced by expenses incurred by the City for specific projects. Impact fees or other fees collected are typically recorded as revenue in special revenue funds.

Condition

The City has reported in a fiduciary agency fund amounts collected in deposits from developers, impact fees, and other fees, as a deposit payable.

Cause

The City needs additional time to review these amounts and determine if any of the impact fees or other fees collected should be reclassified from a fiduciary fund to a special revenue fund.

Effect

Same as the condition.

Recommendation

We recommend the City research and analyze its deposit payable account to determine the true balance of deposits payable that constitute as refundable deposits and reclassify any other amounts that should be reported as revenue.

Management's Response

The City will do a more in depth review our deposit payables and make any necessary reclassifications to ensure that their balances are correctly accounted for in the appropriate fund. If the determination is reached that the impact fees or other fees collected should be reclassified to a newly created special revenue fund, we will address it during the Fiscal Year 2017-18 budgeting process.

CITY OF LA HABRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2016

2. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED):

SIGNIFICANT DEFICIENCIES

Finding Number 2016-002

Criteria

Capital asset records should be maintained in a manner that supports the amounts reported in the financial statements and in sufficient detail such that depreciation can be calculated and deletions of capital assets can be removed from the listing.

Condition

During our review audit, we noted that the City maintains capital asset detail for infrastructure and assets resulting from capital projects by project numbers and in separate spreadsheets for each fiscal year. We also noted the City calculates depreciation expense for these types of capital assets by taking a percentage of each fiscal year's additions.

Cause

This has been how the City maintained its records historically.

Effect

With this methodology, the City is unable to track when an asset becomes fully depreciated or account for deletions of assets capitalized in a particular fiscal year that has not been fully depreciated. This also indicates that the City does not review the listings for potential deletions.

Recommendation

We recommend the City maintain all capital assets in comprehensive listings and review the listings for existence at least annually. The City should also maintain capital project additions in more detail moving forward such that deletions can be identified easier and removed. With the comprehensive listings, the City should calculate depreciation in more detail such that it is clear when an asset becomes fully depreciated and deleted assets are removed and do not continue to be depreciated.

CITY OF LA HABRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2016

2. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED):

SIGNIFICANT DEFICIENCIES (CONTINUED)

Finding Number 2016-002 (Continued)

Management's Response

The City has been maintaining capital asset detail by individual asset except for infrastructure which is maintained by project for each fiscal year. The City plans to implement new procedures to maintain all capital assets in comprehensive listings and track depreciation expenses by individual asset/project to improve the accuracy of capital asset records.

Finding Number 2016-003

Criteria

Billing of the grantor for reimbursement of eligible costs incurred should be performed in a timely manner.

Condition

During our review of the Measure M special revenue fund's receivables, we noted there are receivables dating back to fiscal year 2011-2012 that have not been collected.

Cause

The City has not been billing the grantor on a timely basis.

Effect

Receivables have been outstanding for long periods of time, which decreases likelihood of collection.

Recommendation

We recommend the City perform timely billing of grants to allow receivables to be collected in a more timely manner to increase cash flow.

CITY OF LA HABRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2016

2. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED):

SIGNIFICANT DEFICIENCIES (CONTINUED)

Finding Number 2016-003 (Continued)

Management's Response

The majority of projects in the Measure M grant fund are multi-year projects which are considered to be available and collectible if collected within 365 days of the end of the grant period. In the past, the City typically prepared grant billings after project completion due to potential changes in funding sources. Staff in the Engineering Department has been made aware of the benefit of a timely billing, and staff already began preparing grant billings in a more timely manner to improve cash flow.

3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT:

Finding Number 2016-004

Major Program

United States Department of Agriculture, Passed through State of California Department of Education, Child and Adult Care Food Program (CFDA 10.558), Grant Identification Number: 04320-CACFP-30-GM-DCH.

Criteria

Under Uniform Guidance Subpart E, *Cost Principles*, Section 200.430, charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards.

Condition

During our audit of salaries and wages charged to the federal program, we noted that two employees are charged based on a budgeted percentage instead of actual hours.

Cause

These two employees noted do not track and document actual hours worked on the federal program.

CITY OF LA HABRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2016

3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT
(CONTINUED):

Finding Number 2016-004 (Continued)

Effect

The City is not in compliance with the Uniform Guidance.

Questioned Costs

The amount of salaries and wages, including benefits, charged to the federal program for these two employees is approximately \$55,000. The amount of questioned costs cannot be determined since there are no records that accurately reflect the actual work performed.

Context

There are four employees that charge salaries and wages to the federal program.

Recommendation

We recommend the City charge salaries and wages to Federal programs based on actual hours worked by employees on each Federal program and maintain proper documentation of actual hours worked.

Management's Response

The two employees who charged their times based on the percentage allocations are administrative employees. Although we believe that the administrative employees' salaries which were charged to the program based on percentage allocations are fairly accurate, we understand that the program required all employees to track actual amount of time spent on each program. The allocation percentages are determined by the Child Development Program Manager based on the actual work responsibility of each administrative employee. These percentages are reviewed periodically to ensure that salary charges are accurate. We plan to implement new procedures to ensure that administrative employees track actual hours worked on the programs.

CITY OF LA HABRA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2016

There were no findings reported for fiscal year 2014-2015.