

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

JUNE 30, 2017

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, 2017, 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 29, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given those limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding Number 2017-001, to be a significant deficiency.

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 Response to the Finding

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

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 Dick Evans LLP

Irvine, California
January 29, 2018

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, 2017. 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, 2017.

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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated January 29, 2018, 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.

**Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance
(Continued)**

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 29, 2018

**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, 2017

<u>Federal Grantor / Pass - Through Grantor / Program / Cluster Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Program Identification Number</u>	<u>Federal Expenditures</u>	<u>Subrecipient Expenditures</u>
<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	\$ 222,887	\$ -
Child and Adult Care Food Program	10.558	04320-CACFP-30-GM-DCH	1,459,892	1,271,604
Total United States Department of Agriculture			<u>1,682,779</u>	<u>1,271,604</u>
<u>United States Department of Housing and Urban Development:</u>				
Direct Assistance:				
Community Development Block Grant	14.218	B-16-MC-06-0582	873,135	148,678
Passed through State of California Housing and Community Development				
HOME Investment Partnership Program	14.239	13-HOME-9019	483,671	-
HOME Investment Partnership Program	14.239	13-HOME-9019(PI)	159,324	-
Total HOME Investment Partnership Program			<u>642,995</u>	<u>-</u>
Total United States Department of Housing and Urban Development			<u>1,516,130</u>	<u>148,678</u>
<u>United States Department of Justice:</u>				
Direct Assistance:				
Bulletproof Vest Partnership Program	16.607	2016BUBX16080548	1,310	-
Bulletproof Vest Partnership Program	16.607	2017BUBX17085486	1,987	-
Total Bulletproof Vest Partnership Program			<u>3,297</u>	<u>-</u>
Public Safety Partnership and Community Policing Grants	16.710	2012UMWX0192	42,956	-
Passed through County of Orange Sheriff's Department:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJ-BX-0226	5,236	-
Total United States Department of Justice			<u>51,489</u>	<u>-</u>
<u>United States Department of Labor:</u>				
Passed through California Orange Community Services Agency:				
WIA/WIOA Youth Activities	17.259	16-28-0011-Y	497,480	4,950
Total United States Department of Labor			<u>497,480</u>	<u>4,950</u>

(PI) = Program Income

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, 2017

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 Transportation:</u>				
Passed through California State Transportation Agency:				
State and Community Highway Safety	20.600	PT1758	\$ 63,691	\$ -
State and Community Highway Safety	20.600	PT1634	7,738	-
Total State and Community Highway Safety			71,429	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT1758	43,144	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT1634	33,227	-
Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated			76,371	-
Highway Planning and Construction Cluster				
Recreational Trails Program	20.219	CML-5266(023)	76,650	-
Highway Planning and Construction	20.205	STPL-5266(024)	151,362	-
Highway Planning and Construction	20.205	STPL-5266(025)	242,846	-
Total Highway Planning and Construction Cluster			470,858	-
Total United States Department of Transportation			618,658	-
<u>United States Department of Treasury:</u>				
Direct Assistance:				
Equitable Sharing Program	21.016	CA0301200	156,724	-
Total United States Department of Treasury			156,724	-
<u>United States Department of Health and Human Services:</u>				
Passed through State of California Department of Education:				
Child Care Development Fund Cluster:				
Child Care and Development Block Grant	93.575	CCTR-6156	199,443	43,897
Child Care and Development Block Grant	93.575	CSPP-6315	30,861	-
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	CCTR-6156	434,209	94,547
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	CSPP-6315	67,186	-
Total Child Care Development Fund Cluster			731,699	138,444
Passed through Orange County Head Start:				
Head Start	93.600	09-CH9155-03	1,577,190	-
Total United States Department of Health and Human Services			2,308,889	138,444
<u>United States Department of Homeland Security:</u>				
Passed-through California Emergency Management Agency				
Emergency Management Performance Grant	97.042	2016-0010	9,636	-
Total United States Department of Homeland Security			9,636	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 6,841,785	\$ 1,563,676

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, 2017

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, 2017. 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. Expenditures are recognized following the cost principles contained in the Uniform Guidance 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, 2017

1. SUMMARY OF AUDITORS' RESULTS:

Financial Statements

Type of auditors' report issued:

- Unmodified

Internal control over financial reporting:

- Material weakness identified? yes x no
- Significant deficiencies identified? x yes none reported
 See Finding Number 2017-001

Noncompliance material to financial statements noted: yes x no

Federal Award:

Internal control over major programs:

- Material weakness identified? yes x no
- Significant deficiency identified? yes x 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 x no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.558	Child and Adult Care Food Program
14.218	Community Development Block Grant
14.239	HOME Investment Partnership Program

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes x no

CITY OF LA HABRA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2017

2. FINDINGS - FINANCIAL STATEMENT AUDIT:

SIGNIFICANT DEFICIENCY

Finding Number 2017-001

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 of water and sewer fund capital asset records, we noted that the City maintains capital asset detail for infrastructure by fiscal year and calculate 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 detailed 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 detailed 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 such that they do not continue to depreciate.

CITY OF LA HABRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2017

2. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED):

SIGNIFICANT DEFICIENCY (CONTINUED)

Finding Number 2017-001 (Continued)

Management's Response

The City has been maintaining capital asset detail by individual asset except for Water and Sewer infrastructure which is maintained by project for each fiscal year. The City has begun implementing new procedures to maintain all capital assets in comprehensive listings and track depreciation insert expenses by individual asset/project to improve the accuracy of capital asset records. A full implementation is expected in FY 17/18.

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

There were no findings or questioned costs for the year ended June 30, 2017.

CITY OF LA HABRA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2017

1. FINDINGS - FINANCIAL STATEMENT AUDIT:

Finding Number 2016-001

Condition

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

Current Status

This finding has been corrected.

Finding Number 2016-002

Condition

During our 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.

Current Status

Corrective action was taken for governmental type capital assets but not for the Water and Sewer enterprise fund. Finding is repeated specifically for the Water and Sewer enterprise fund in the 2017 audit.

CITY OF LA HABRA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2017

1. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED):

Finding Number 2016-003

Condition

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

Current Status

This finding has been corrected.

2. 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.

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.

Current Status

This finding has been corrected.