

CITY OF HUNTINGTON BEACH, CALIFORNIA

Single Audit Reports

For the Fiscal Year Ended September 30, 2013

CITY OF HUNTINGTON BEACH, CALIFORNIA

**Single Audit Reports
For the Fiscal Year Ended September 30, 2013**

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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 City Council
City of Huntington Beach, 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 City of Huntington Beach, California (City), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 28, 2014. Our report included an emphasis of matter, regarding the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus* – an amendment of GASB Statement No. 14 and No. 34, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective October 1, 2012.

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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 entity'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 these 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 item 2013-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

Management's Response to Finding

Management's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Management'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Laguna Hills, California
March 28, 2014



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

The Honorable City Council
City of Huntington Beach, California

Report on Compliance for Each Major Federal Program

We have audited the City of Huntington Beach, California's (City) 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 September 30, 2013. 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.

Managements' Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants 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 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'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 September 30, 2013.

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 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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 September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 28, 2014, which contained unmodified opinions on those financial statements. Our opinion contained an emphasis of matter regarding the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB 14 Statement No. 14 and No. 34*, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective October 1, 2012. 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 the purposes of additional analysis as required by OMB Circular A-133 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.

Varrinck, Tinc, Dg 1/ Co, US

Laguna Hills, California
June 20, 2014

CITY OF HUNTINGTON BEACH, CALIFORNIA
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2013

Federal Grantor Program Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Housing and Urban Development				
Direct Assistance:				
Community Development Block Grants	14.218	B-08-MC-06-0506	\$ 308,814	\$ -
Community Development Block Grants	14.218	B-09-MC-06-0506	244,810	-
Community Development Block Grants	14.218	B-10-MC-06-0506	346,454	-
Community Development Block Grants	14.218	B-11-MC-06-0506	318,171	-
Community Development Block Grants	14.218	B-12-MC-06-0605	945,747	187,456
Subtotal Community Development Block Grants			<u>2,163,996</u>	<u>187,456</u>
HOME Investment Partnerships Program	14.239	M-10-MC-06-0514	75,118	-
HOME Investment Partnerships Program	14.239	M-12-MC-06-0514	26,652	-
Subtotal Home Investment Partnerships Program			<u>101,770</u>	<u>-</u>
Economic Development Initiative - Special Projects Grants	14.251	B-06-SP-CA-0090	91,565	-
Total U.S. Department of Housing and Urban Development			<u>2,357,331</u>	<u>187,456</u>
U.S. Department of Justice				
Direct Assistance:				
Asset Forfeiture	16.922	CA0301000	99,500	-
Organized Crime Drug Enforcement Task Force - State & Local Overtime	16.004	SW-CAC-1180	2,655	-
Subtotal Direct Assistance			<u>102,155</u>	<u>-</u>
Passed through California Office of Emergency Services:				
Violence Against Women Formula Grants	16.588	LE11046860	73,071	-
Violence Against Women Formula Grants	16.588	LE12056860	136,629	-
Subtotal Violence Against Women Formula Grants			<u>209,700</u>	<u>-</u>
Passed through County of Orange:				
JAG Program Cluster:				
Edward Byrne Memorial Justice Assistance Program	16.738	2010-DJ-BX-0324	8,853	-
Edward Byrne Memorial Justice Assistance Program	16.738	2012-DJ-BX-0057	20,624	-
ARRA - Edward Byrne Memorial Justice Assistance Grant Program	16.804	2009-SB-B9-0271	5,086	-
Subtotal Passed through the County of Orange - JAG Program Cluster			<u>34,563</u>	<u>-</u>
Passed through City of Anaheim				
Enhanced Collaborative Model to Combat Human Trafficking	16.320	2012-VT-BXK002	13,371	-
Total U.S. Department of Justice			<u>359,789</u>	<u>-</u>
U.S. Department of Transportation				
Passed through the California Department of Transportation:				
Highway Planning and Construction cluster:				
Highway Planning and Construction	20.205	STPL-5181 (165)	15,120	-
Bridge Preventative Maintenance	20.205	BPMP-5181 (169)	2,269	-
Bridge Preventative Maintenance	20.205	BPMP-5181 (171)	18,370	-
Bridge Preventative Maintenance	20.205	BPMP-5181 (172)	6,799	-
Bridge Rehabilitation	20.205	BRLO-5181 (174)	203,998	-
Bridge Rehabilitation	20.205	BRLO-5181 (175)	200,650	-
Safe Routes to School	20.205	SRTSL-5181 (173)	15,009	-
Subtotal Passed through the California Department of Transportation - Highway Planning and Construction Cluster			<u>462,215</u>	<u>-</u>

See accompanying notes to the schedule of expenditure of federal awards.

CITY OF HUNTINGTON BEACH, CALIFORNIA
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2013

Federal Grantor Program Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Transportation (continued)				
Passed through Orange County Transportation Authority:				
Federal Transit Administration Section 5307	20.507	STPL-5181 (165)	\$ 192,330	\$ -
Passed through California Office of Traffic Safety:				
State and Community Highway Safety	20.600	PT1368	31,366	-
Sobriety Checkpoint Grant Program	20.601	SC13184	92,742	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT1368	47,945	-
Subtotal Passed through the California Office of Traffic Safety			<u>172,053</u>	<u>-</u>
Passed through the City of Anaheim:				
Avoid DUI Campaign	20.601	AL1325	2,689	-
Total U.S. Department of Transportation			<u>829,287</u>	<u>-</u>
U.S. Department of the Interior				
Direct Assistance:				
Water and Efficiency Grant	15.507	R11AP35294	156,564	-
Total U.S. Department of the Interior			<u>156,564</u>	<u>-</u>
U.S. Department of Homeland Security				
Passed through the County of Orange:				
Emergency Management Performance Grant	97.042	2012-0048; OES 059-0000	36,691	-
Homeland Security Grant Program	97.067	2010-7; OES 059-0000	304,867	-
Homeland Security Grant Program	97.067	2011-7; OES 059-0000	505	-
Subtotal Passed through the County of Orange			<u>342,063</u>	<u>-</u>
Passed through the City of Santa Ana:				
Homeland Security Grant Program	97.067	2011-SS-0077	32,283	-
Homeland Security Grant Program	97.067	2011-SS-0077	27,577	-
Homeland Security Grant Program	97.067	2011-SS-0077	110,483	-
Passed through the City of Santa Ana			<u>170,343</u>	<u>-</u>
Passed through the City of Anaheim:				
Homeland Security Grant Program	97.067	2010-0085	79,606	-
Homeland Security Grant Program	97.067	2010-0085	3,593	-
Homeland Security Grant Program	97.067	2010-0085	52,617	-
Homeland Security Grant Program	97.067	2010-0085	5,729	-
Homeland Security Grant Program	97.067	2012-SS-00123	3,802	-
Passed through the City of Anaheim			<u>145,347</u>	<u>-</u>
Total U.S. Department of Homeland Security			<u>657,753</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 4,360,724</u>	<u>\$ 187,456</u>

See accompanying notes to the schedule of expenditure of federal awards.

CITY OF HUNTINGTON BEACH, CALIFORNIA
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2013

NOTE 1 – BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the activity of all federal financial assistance programs of the City of Huntington Beach (City) and is presented on the modified accrual basis of accounting as described in Note 1 of the notes to the City’s basic financial statements. All financial assistance received directly from federal agencies, as well as federal financial assistance passed through other government agencies to the City is included in the accompanying Schedule. The information in the Schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audit of States, Local Governments and Non-Profits Organizations*.

NOTE 2 – RELATIONSHIP TO THE CITY’S BASIC FINANCIAL STATEMENTS

Amounts reported in the accompanying Schedule agree to amounts reported within the City’s basic financial statements.

NOTE 3 – RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

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

NOTE 4 – FEDERAL FUNDED LOANS

The City administers loans, primarily deferred loans, made from funds provided by the following federal programs:

Federal Programs	CFDA No.	Loans Expended During the Year Ended September 30, 2013	Loans Outstanding as of September 30, 2013	Loans Outstanding as of September 30, 2013 with Continuing Compliance Requirements
Community Development				
Block Grants/Entitlement Grants	14.218	\$ 67,501	\$ 3,747,170	\$ -
HOME Investment Partnerships Program	14.239	65,315	11,018,109	11,018,109
Neighborhood Stabilization Program - HERA	14.228	-	432,303	-

CITY OF HUNTINGTON BEACH, CALIFORNIA
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2013

NOTE 5 – OFFICE OF EMERGENCY SERVICES

The following represents federal expenditures for the grant period, which may extend over several fiscal years, for programs from the Department of Justice passed through the Office of Emergency Services:

Violence Against Women Formula Grant LE11046860 from October 1, 2012 – September 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Personnel costs	\$ 19,200	\$ 19,200	\$ -
Operating expenses	53,871	53,871	-
Total	<u>\$ 73,071</u>	<u>\$ 73,071</u>	<u>\$ -</u>

Violence Against Women Formula Grant LE12056860 from October 1, 2012 – September 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Personnel costs	\$ 74,669	\$ 47,622	\$ 27,047
Operating expenses	126,517	89,007	37,510
Equipment	39,762	-	39,762
Total	<u>\$ 240,948</u>	<u>\$ 136,629</u>	<u>\$ 104,319</u>

CITY OF HUNTINGTON BEACH, CALIFORNIA
Schedules of Findings and Questioned Costs
For the Fiscal Year Ended September 30, 2013

I. Summary of Auditors' Results

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	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 Circular A-133, Section .510(a)	No
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
14.239	Home Investment Partnerships Program
16.588	Violence Against Women Formula Grant

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	Yes

CITY OF HUNTINGTON BEACH, CALIFORNIA
Schedules of Findings and Questioned Costs
For the Fiscal Year Ended September 30, 2013

II. Financial Statement Findings

Finding Number 2013-001

Completeness of Schedule of Expenditures of Federal Awards

Criteria:

In accordance with OMB Circular A-133, §_310(b) *Schedule of expenditures of Federal Awards*, the auditee shall prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. Further, under §_205 *Basis for determining Federal awards expended*, the determination of when an award is expended should be based on when the activity related to the award occurs.

Condition:

During our review over the completeness and accuracy of the Schedule of Expenditures of Federal Awards (SEFA) for the year ended September 30, 2013, we noted that the City included prior year expenditures related to the Water and Energy Efficiency Grant that was not previously reported in the prior SEFA.

Context:

The Water and Energy Efficiency Grant reported on the SEFA as of September 30, 2013, is comprised of prior year expenditures.

Cause:

While preparing the SEFA in the prior year, management did not consider all funds within their accounting system pertaining to Federal grants.

Effect:

The expenditures reported in the prior year SEFA were understated in the amount of \$156,564.

Recommendation

We recommend that the City identify all funds within their accounting system that pertain to federal grant expenditures when preparing the SEFA to ensure the integrity and completeness of the data included. To verify completeness, we recommend that management reconcile their SEFA to financial expenditure reports submitted to their respective grantors on an annual basis.

Views of Responsible Officials and Planned Corrective Actions:

The City's Finance Department will work closely with each of the departments and grant project managers to ensure that the reconciliation of grant revenues and expenditures is completed at year-end so that federal expenditures are recognized in the proper fiscal year.

CITY OF HUNTINGTON BEACH, CALIFORNIA
Schedules of Findings and Questioned Costs
For the Fiscal Year Ended September 30, 2013

III. Federal Award Findings and Questioned Costs

None reported.

CITY OF HUNTINGTON BEACH, CALIFORNIA
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended September 30, 2013

Summarized below is the current status of all audit findings reported in the prior year audit's schedule of audit findings and questioned costs.

Financial Statement Findings

Finding No.	Area	Status of Corrective Action
2012-01	Completeness of Schedule of Expenditures of Federal Awards	Partially Implemented - See Finding 2013-001

Federal Awards Findings

None reported.