

CITY OF HUNTINGTON BEACH, CALIFORNIA

Single Audit Reports

For the Fiscal Year Ended September 30, 2015

CITY OF HUNTINGTON BEACH, CALIFORNIA

**Single Audit Reports
For the Fiscal Year Ended September 30, 2015**

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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 the City of Huntington Beach, California (City), as of and for the year ended September 30, 2015, 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 29, 2016. Our report included an emphasis of matter, regarding the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*, effective October 1, 2014. Additionally, our report included an emphasis of matter regarding the City's restatement of the Pension Trust Fund – Retirement Supplemental Fund Fiduciary Net Position as of September 30, 2014.

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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as items 2015-001 and 2015-002 that we consider to be significant deficiencies.

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 Findings

Management's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Management's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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 29, 2016



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL 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, 2015. 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, 2015.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2015-003 and 2015-004. Our opinion on each major federal program is not modified with respect to this matter.

The City's responses to the noncompliance 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 compliance and, accordingly, we express no opinion on the responses.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs, as items 2015-003 and 2015-004 that we consider to be significant deficiencies.

The City's responses to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the responses.

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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 29, 2016, which contained unmodified opinions on those financial statements. Our report included an emphasis of matter, regarding the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*, effective October 1, 2014. Additionally, our report included an emphasis of matter regarding the City's restatement of the Pension Trust Fund – Retirement Supplemental Fund Fiduciary Net Position as of September 30, 2014. 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.



Laguna Hills, California
June 24, 2016

CITY OF HUNTINGTON BEACH, CALIFORNIA
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2015

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/Entitlement Grants	14.218	B-13-MC-06-0506	\$ 143,955	\$ -
Community Development Block Grants/Entitlement Grants	14.218	B-14-MC-06-0506	749,641	92,500
Subtotal Community Development Block Grants			<u>893,596</u>	<u>92,500</u>
HOME Investment Partnerships Program	14.239	M-08-MC-06-0514	1,300	-
HOME Investment Partnerships Program	14.239	M-10-MC-06-0514	123,962	-
HOME Investment Partnerships Program	14.239	M-11-MC-06-0514	108,353	-
HOME Investment Partnerships Program	14.239	M-12-MC-06-0514	71,840	-
HOME Investment Partnerships Program	14.239	M-13-MC-06-0514	51,360	-
HOME Investment Partnerships Program	14.239	M-14-MC-06-0514	18,539	-
Subtotal HOME Investment Partnerships Program			<u>375,354</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development			<u>1,268,950</u>	<u>92,500</u>
U.S. Department of Justice				
Direct Assistance:				
Asset Forfeiture	16.922	CA0301000	91,838	-
Organized Crime Drug Enforcement Task Force -State and Local Overtime	16.111	R1-14-0013, SW-CAC-1275 (14/15)	20,935	-
Passed through California Office of Emergency Services:				
Violence Against Women Formula Grants	16.588	LE13066860	34,346	-
Violence Against Women Formula Grants	16.588	LE14076860	142,928	-
Subtotal Violence Against Women Formula Grants			<u>177,274</u>	<u>-</u>
Passed through County of Orange:				
JAG Program Cluster:				
Edward Byrne Memorial Justice Assistance Program	16.738	2013-DJ-BX-1065	28,448	-
Passed through City of Anaheim				
Enhanced Collaborative Model to Combat Human Trafficking	16.320	2012-VT-BXK002	36,005	-
Total U.S. Department of Justice			<u>354,500</u>	<u>-</u>
U.S. Department of Health and Human Services				
Passed through Community Service Programs, Inc.				
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	13-90210	126,453	-
Total U.S. Department of Health and Human Services			<u>126,453</u>	<u>-</u>
U.S. Department of Transportation				
Passed through the California Department of Transportation:				
Highway Planning and Construction	20.205	STPL-5181 (165)	566,200	-
Bridge Preventative Maintenance	20.205	BPMP-5181 (169)	4,198	-
Bridge Preventative Maintenance	20.205	BPMP-5181 (171)	68,388	-
Bridge Preventative Maintenance	20.205	BPMP-5181 (172)	86,467	-
Bridge Rehabilitation	20.205	BRLO-5181 (174)	7,658	-
Bridge Rehabilitation	20.205	BRLO-5181 (175)	6,755	-
Safe Routes to School	20.205	SRTSL-5181 (173)	343,769	-
Highway Safety Improvement Program	20.205	HSIPL-5181 (178), HSIP5-12-006	5,006	-
Highway Safety Improvement Program	20.205	HSIPL-5181 (177), HSIP5-12-005	203,421	-
Subtotal Passed through the California Department of Transportation			<u>1,291,862</u>	<u>-</u>
Passed through Orange County Transportation Authority:				
Highway Planning and Construction	20.205	CML-5181 (179)	37,000	-
Subtotal Highway Planning and Construction Cluster			<u>37,000</u>	<u>-</u>
Passed through California Office of Traffic Safety:				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT1543-164AL (2014)	329,949	-
State and Community Highway Safety - Highway Safety Cluster	20.600	PT1543-402PT (2014)	81,512	-
Subtotal Passed through the California Office of Traffic Safety			<u>411,461</u>	<u>-</u>
Total U.S. Department of Transportation			<u>1,740,323</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 (Continued)
For the Fiscal Year Ended September 30, 2015

Federal Grantor Program Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Institute of Museum and Library Services:				
Passed through California State Library:				
Grants to States - Library Services and Technology Grant	45.310	LS-00-15-0005-15 (40-8515)	\$ 14,989	\$ -
Total U.S. Institute of Museum and Library Services			<u>14,989</u>	<u>-</u>
U.S. Department of Homeland Security				
Direct Programs:				
Assistance to Firefighters Grant	97.044	EMW-2013-FO-01321	69,112	-
Passed through the County of Orange:				
Emergency Management Performance Grant	97.042	EMW-2014-EP-00070	26,324	-
Emergency Management Performance Grant	97.042	2015 EMPG Local Allocation	4,689	-
Subtotal Passed through the County of Orange - Emergency Management Performance Grants (97.042)			<u>31,013</u>	<u>-</u>
Passed through the City of Santa Ana:				
Homeland Security Grant Program (POLICE)	97.067	2013-00110 - Project J1	80,000	-
Passed through the City of Anaheim:				
Homeland Security Grant Program (POLICE)	97.067	2014-SS-00093 - Project J1	118,355	-
Subtotal Homeland Security Grant Programs (97.067)			<u>198,355</u>	<u>-</u>
Total U.S. Department of Homeland Security			<u>298,480</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 3,803,695</u>	<u>\$ 92,500</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, 2015

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, 2015	Loans Outstanding as of September 30, 2015	Loans Outstanding as of September 30, 2015 with Continuing Compliance Requirements
Community Development				
Block Grants/Entitlement Grants	14.218	\$ -	\$ 2,963,435	\$ -
HOME Investment Partnerships Program	14.239	305,550	13,242,837	13,242,837
Neighborhood Stabilization Program - HERA	14.228	-	453,845	-

CITY OF HUNTINGTON BEACH, CALIFORNIA
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2015

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 LE13066860 from October 1, 2014 – September 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Personnel costs	\$ 9,218	\$ 9,218	\$ -
Operating expenses/Equipment	25,502	25,128	374
Total	<u>\$ 34,720</u>	<u>\$ 34,346</u>	<u>\$ 374</u>

Violence Against Women Formula Grant LE14076860 from October 1, 2014 – September 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Personnel costs	\$ 66,608	\$ 54,608	\$ 12,000
Operating expenses/Equipment	122,367	88,320	34,047
Total	<u>\$ 188,975</u>	<u>\$ 142,928</u>	<u>\$ 46,047</u>

CITY OF HUNTINGTON BEACH, CALIFORNIA
Schedules of Findings and Questioned Costs
For the Fiscal Year Ended September 30, 2015

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 federal programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Type of auditors' report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	Yes
Identification of major federal programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.239	HOME Investment Partnerships Program
20.205	Highway Planning and Construction Cluster
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated

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, 2015

II. Financial Statement Findings

Finding Number 2015-001

Financial Reporting

Criteria:

Management is responsible for a system of internal controls over financial reporting, which should be designed to initiate, authorize, record, process, and report financial data accurately, timely, and in accordance with U.S. generally accepted accounting principles.

Condition:

Adjustments were noted during the audit, and corrected by the City, to the general ledger, financial statements, and related disclosures. Further, the City identified a prior period adjustment to properly state the Pension Trust Fund – Retirement Supplementary Fund Fiduciary Net Position.

Context:

The condition was noted during our procedures over the financial statements, as well as testing over specific financial statement captions and related disclosures, including compensated absences, deferred inflows and outflows of resources, and restatement entries related to pensions, fund balance, and net position.

Cause:

The City's procedures over the closing and financial reporting process did not consistently provide for the timely identification and correction of misstatements, or proper disclosures, in the financial statements.

Effect:

Certain adjustments were required to the financial statements, including an adjustment noted by the City to restate beginning net position to correct an understatement of net position for the Pension Trust Fund – Retirement Supplemental Fund.

Recommendation

We recommend that the City review their closing and financial reporting process to ensure that the financial statements are reviewed for accuracy and completeness, and proper disclosures are presented in accordance with generally accepted accounting principles, on a timely basis.

Views of Responsible Officials and Planned Corrective Actions:

The fiscal year ended September 30, 2015, represents the first year of GASB 68 implementation. In the context of this in-depth review of the Retirement Supplemental Fund, a decade-long liability that was incorrectly posted was identified. The removal of this incorrectly posted liability is a positive development as it improved the Net Position of the Supplemental Retirement Fund. Nonetheless, the Finance Department has hired additional staff in FY 15/16, which will help to better allocate ongoing financial reporting duties and provide an additional layer of review through improved segregation of duties.

CITY OF HUNTINGTON BEACH, CALIFORNIA
Schedules of Findings and Questioned Costs
For the Fiscal Year Ended September 30, 2015

II. Financial Statement Findings

Finding Number 2015-002

Preparation and Reporting of the 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. This schedule must include certain elements, including the total Federal awards expended for each individual Federal program and the CFDA number. Also the auditee needs to disclose either in the schedule or the notes to the schedule, the value of the Federal awards expended in the form of loans or loan guarantees outstanding at year-end. Further, under §.205 *Basis of 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, 2015, we noted the following:

- An audit adjustment of \$329,949 was proposed and posted to reclassify the expenditures under CFDA No. 20.608, from CFDA No. 20.600, related to grant PT 1543 (164AL).
- The City identified material adjustments to loan guarantees resulting in an increase of \$1,227,722 to HOME loans outstanding with continuing compliance requirements (CFDA No. 14.239) as of September 30, 2015 to correct errors in amounts underreported in the in prior year.
- An audit adjustment of \$103,775 was proposed and posted to the disclosures for HOME loans expended (CFDA No. 14.239) during the current year to reflect an additional accrual posted to general ledger (properly included in SEFA).
- Audit reclassification adjustments were proposed and posted for the HOME program (CFDA No. 14.239) to align expenditures with the proper grant year.
- The City identified and reported \$51,533 of expenditures incurred in the prior year, but not previously reported on the SEFA, related to CFDA No. 93.243.

Context:

The SEFA as of September 30, 2015 included expenditures incurred in the prior year, and the SEFA and related disclosures required adjustments to be stated completely and accurately.

Cause:

The City's procedures did not ensure that federal expenditures, including loans and loan guarantees, were identified timely and properly reported on the SEFA and in required note disclosures to the SEFA.

Effect:

As a result of the condition, adjustments were proposed and posted to the SEFA and related note disclosures as part of the audit. Further, the prior year SEFA was understated by \$51,533 and the prior year loans outstanding with continuing disclosure requirements was understated by \$1,227,722.

CITY OF HUNTINGTON BEACH, CALIFORNIA
Schedules of Findings and Questioned Costs
For the Fiscal Year Ended September 30, 2015

II. Financial Statement Findings

Recommendation

We recommend the City review their policies and procedures over the preparation and review of SEFA and related note disclosures to ensure that the proper CFDA number is identified, loan balances and current year loans expended are properly disclosed, and that federal expenditures are identified in a timely manner for inclusion on the SEFA.

Views of Responsible Officials and Planned Corrective Actions:

The City has recently implemented new grant monitoring procedures, developed a new grant compliance manual, and conducted two citywide training sessions on grant management with City staff. These new procedures should help ensure the accuracy of the SEFA and related note disclosures going forward.

CITY OF HUNTINGTON BEACH, CALIFORNIA
Schedules of Findings and Questioned Costs
For the Fiscal Year Ended September 30, 2015

III. Federal Award Findings and Questioned Costs

Finding Number 2015-003

Program: HOME Investment Partnerships Program (HOME)

CFDA No.: 14.239

Federal Grantor: U.S. Department of Housing and Urban Development (HUD)

Passed-through: N/A

Award No. and Year: M-08-MC-06-0514 (2008), M-10-MC-06-0514 (2010), M-11-MC-06-0514 (2011), M-12-MC-06-0514 (2012), M-13-MC-06-0514 (2013), and M-14-MC-06-0514 (2014)

Compliance Requirements: Special Tests and Provisions – Housing Quality Standards

Criteria:

The *June 2015 OMB Circular A-133 Compliance Supplement* states that for the HOME program, during the period of affordability for HOME assisted rental housing, the City must perform on-site inspections to determine compliance with property standards and verify the information submitted by the owners no less than every two year for projects with 26 or more units.

Condition:

Significant Deficiency, Instance of Non-Compliance - It was noted for one building, with 104 HOME-funded units, the City performed an on-site inspection dated April 8, 2015; however the last on-site inspection was completed December 12, 2011, which exceeds the timeframe required. We noted this is a repeat finding from prior year (2014-002). Subsequent to year-end, the City implemented procedures to ensure this building would be subject to an on-site inspection annually.

Questioned Costs:

None noted.

Context:

The condition noted above was identified during our procedures related to the special tests and provisions for Housing Quality Standards applicable to the HOME program.

Effect:

The City has not completed the required on-site inspections within the timeframe required to ensure compliance with property standards.

Cause:

The City's procedures did not ensure the required on-site inspections were completed within the required timeframe.

CITY OF HUNTINGTON BEACH, CALIFORNIA
Schedules of Findings and Questioned Costs
For the Fiscal Year Ended September 30, 2015

III. Federal Award Findings and Questioned Costs

Recommendation:

We recommend that the City strengthen its policies and internal control procedures to ensure that the on-site inspections are completed on a timely basis in accordance with HOME requirements.

View of Responsible Official and Planned Corrective Action:

The City has a three-year contract with an on-site physical inspection firm, to ensure the timeliness of the required on-site physical inspections. The City also created an on-site database in FY 2014-15 to ensure timely inspection of its housing projects. The finding relates to a single project, which was due for inspection shortly before the improved procedures were enacted.

Finding Number 2015-004

Program: HOME Investment Partnerships Program (HOME)

CFDA No.: 14.239

Federal Grantor: U.S. Department of Housing and Urban Development (HUD)

Passed-through: N/A

Award No. and Year: M-08-MC-06-0514 (2008), M-10-MC-06-0514 (2010), M-11-MC-06-0514 (2011), M-12-MC-06-0514 (2012), M-13-MC-06-0514 (2013), and M-14-MC-06-0514 (2014)

Compliance Requirements: Program Income

Criteria:

In accordance with the *Code of Federal Regulation (CFR), 2 CFR section 200.307(e), Program Income*, ordinarily program income must be deducted from total allowable costs to determine the net allowable costs. For the HOME program, per *24 CFR Section 92.503*, program income must be deposited in the City's HOME Investment Trust Fund local account. In practice, the City is required to report program income within IDIS, which then applies reported program income against drawdowns for the HOME program.

Condition:

Significant Deficiency, Instance of Non-Compliance – The City identified \$169,710 of program income related to FY 2006-07 through FY 2014-15, which had been underreported within IDIS, thus resulting in noncompliance with the requirements above. Refer to table below for amounts over (under) reported by year:

Fiscal Year ending:	Program Income Received:	Program Income Reported in IDIS:	Over (under) reported
September 30, 2007	\$ 2,400	\$ -	\$ (2,400)
September 30, 2008	6,000	7,200	1,200
September 30, 2009	-	12,298	12,298
September 30, 2010	1,200	-	(1,200)
September 30, 2011	4,647	-	(4,647)
September 30, 2012	25,560	-	(25,560)
September 30, 2013	49,253	-	(49,253)
September 30, 2014	48,824	-	(48,824)
September 30, 2015	51,324	-	(51,324)
			<u>\$ (169,710)</u>

CITY OF HUNTINGTON BEACH, CALIFORNIA
Schedules of Findings and Questioned Costs
For the Fiscal Year Ended September 30, 2015

III. Federal Award Findings and Questioned Costs

Questioned Costs:

None noted.

Context:

The condition was noted during procedures related to program income. The City identified program income was not properly reported prior to the audit, but at the time of the audit had not yet corrected and reported within IDIS.

Effect:

The City has not properly reported program income, thus resulting in additional draw downs of HOME funds totaling \$169,710 over the nine-year period.

Cause:

The City's procedures did not properly identify program income from HOME fund loans, and allow for the proper reporting of the income within IDIS, as required by the HOME program.

Recommendation:

We recommend that the City strengthen its policies and internal control procedures to ensure that all program income is properly identified and properly reported within IDIS, on a timely basis.

View of Responsible Official and Planned Corrective Action:

The City has revised its procedures regarding the identification and reporting of program income and have implemented them immediately. These procedures include additional levels of review by both the Office of Business Development and the Finance Department, and the creation of a program income-specific account code.

CITY OF HUNTINGTON BEACH, CALIFORNIA
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended September 30, 2015

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
2014-001	Financial Reporting	Partially implemented - refer to Finding 2015-001

Federal Awards Findings

Finding No.	Program	CFDA No.	Compliance Requirements	Status of Corrective Action
2014-002	HOME Investment Partnerships Program (HOME)	14.239	Special Tests and Provisions - Housing Quality Standards	Partially implemented - refer to Finding 2015-003