

CITY OF HUNTINGTON BEACH
Huntington Beach, California

Single Audit Report on Federal Awards

For the period October 1, 2017 through June 30, 2018

CITY OF HUNTINGTON BEACH

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Honorable Mayor and City Council
City of Huntington Beach
Huntington Beach, California

**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***

Independent Auditors' Report

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, as of and for the period October 1, 2017 through June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Huntington Beach's basic financial statements, and have issued our report thereon dated December 18, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Huntington Beach'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 of Huntington Beach's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Huntington Beach'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, identified as item 2018-001, described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Huntington Beach'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 of Huntington Beach's Response to Finding

The City of Huntington Beach's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Huntington Beach'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.

A handwritten signature in blue ink, appearing to read "David L. W.", is positioned above the typed name and date.

Irvine, California
December 18, 2018

Honorable Mayor and City Council
City of Huntington Beach
Huntington Beach, California

Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by Uniform Guidance

Independent Auditors' Report

Report on Compliance for Each Major Federal Program

We have audited the City of Huntington Beach's compliance with the types of compliance requirements described in the *OMB Circular Compliance Supplement* that could have a direct and material effect on each of the City of Huntington Beach's major federal programs for the period October 1, 2017 through June 30, 2018. The City of Huntington Beach'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 of Huntington Beach'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 requirement 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 of Huntington Beach'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 of Huntington Beach's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Huntington Beach complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the period October 1, 2017 through June 30, 2018.

Report on Internal Control Over Compliance

Management of the City of Huntington Beach 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 of Huntington Beach'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 of Huntington Beach'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 of Huntington Beach as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Huntington Beach's basic financial statements. We issued our report thereon dated December 18, 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 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 expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in blue ink, appearing to read "Davis L. L. P.", is positioned above a horizontal line.

Irvine, California

February 13, 2019 except for our report on the Schedule of Expenditures of Federal Awards, for which the date is December 18, 2018

CITY OF HUNTINGTON BEACH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the period October 1, 2017 through June 30, 2018

Federal Grantor Program Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Current Year Federal Expenditures	Disbursements to Subrecipients
U.S. Department of Housing and Urban Development				
Direct Programs:				
Community Development Block Grants Cluster				
Entitlement Grants - Non ARRA	14.218	B-14-MC-06-0506	\$ 64,706	\$ -
Entitlement Grants - Non ARRA	14.218	B-15-MC-06-0506	40,164	-
Entitlement Grants - Non ARRA	14.218	B-16-MC-06-0506	67,856	-
Entitlement Grants - Non ARRA	14.218	B-17-MC-06-0506	502,120	67,486
Subtotal Community Development Block Grants Cluster			<u>674,847</u>	<u>67,486</u>
HOME Investment Partnerships Program	14.239	M-12-MC-06-0514	12,548	-
HOME Investment Partnerships Program	14.239	M-13-MC-06-0514	96,145	-
HOME Investment Partnerships Program	14.239	M-14-MC-06-0514	79,705	-
HOME Investment Partnerships Program	14.239	M-15-MC-06-0514	64,318	-
HOME Investment Partnerships Program	14.239	M-16-MC-06-0514	2,000	-
HOME Investment Partnerships Program	14.239	M-17-MC-06-0514	22,510	-
HOME Investment Partnerships Program	14.239	Program Income	94,718	-
Subtotal HOME Investment Partnerships Program			<u>371,945</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development			<u>1,046,792</u>	<u>67,486</u>
U.S. Department of Justice				
Passed through California Office of Emergency Services:				
Violence Against Women Formula Grants	16.588	LE16096860	40,275	-
Violence Against Women Formula Grants	16.588	LE17016860	102,116	-
Subtotal Violence Against Women Formula Grants			<u>142,391</u>	<u>-</u>
Passed through County of Orange:				
Edward Byrne Memorial Justice Assistance	16.738	2016-DJ-BX-0746	25,879	-
Total U.S. Department of Justice			<u>168,270</u>	<u>-</u>
U.S. Department of Transportation				
Passed through California Department of Transportation:				
Highway Planning and Construction Cluster				
Highway Planning and Construction - Non ARRA	20.205	STPL-5181 (188)	270	-
Bridge Preventive Maintenance - Non ARRA	20.205	BPMP-5181 (169)	656,519	-
Bridge Preventive Maintenance - Non ARRA	20.205	BPMP-5181 (171)	861,960	-
Bridge Preventive Maintenance - Non ARRA	20.205	BPMP-5181 (172)	724,083	-
Bridge Rehabilitation - Non ARRA	20.205	BRLO-5181 (174)	11,228	-
Bridge Rehabilitation - Non ARRA	20.205	BRLO-5181 (175)	18,515	-
Highway Safety Improvement Program	20.205	HSIPL-5181(178), HSIP5-12-006	259,289	-
Highway Safety Improvement Program	20.205	HSIPL-5181(180), HSIP6-12-004	4,839	-
Highway Safety Improvement Program	20.205	HSIPL-5181(183), HSIP6-12-005	4,399	-
Highway Safety Improvement Program	20.205	HSIPL-5181(184), HSIP6-12-006	3,925	-
Highway Safety Improvement Program	20.205	HSIPL-5181(185), HSIP6-12-007	5,360	-
Highway Safety Improvement Program	20.205	HSIPL-5181(186), HSIP6-12-008	9,181	-
Highway Safety Improvement Program	20.205	HSIPL-5181(181), HSIP6-12-002	8,737	-
Highway Safety Improvement Program	20.205	HSIPL-5181(182), HSIP6-12-003	676	-
Subtotal Highway Planning and Construction Cluster			<u>2,568,980</u>	<u>-</u>
Passed through California Office of Traffic Safety:				
Highway Safety Cluster				
State and Community Highway Safety	20.600	PT18058 (402PT-18)	57,463	-
Subtotal Highway Safety Cluster			<u>57,463</u>	<u>-</u>
Sobriety Checkpoint Grant Program	20.608	PT18058 (164AL-18)	244,363	-
Subtotal Passed through the California Office of Traffic Safety			<u>301,826</u>	<u>-</u>
Total U.S. Department of Transportation			<u>2,870,806</u>	<u>-</u>

(continued)

CITY OF HUNTINGTON BEACH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

For the period October 1, 2017 through June 30, 2018

Federal Grantor Program Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Current Year Federal Expenditures	Disbursements to Subrecipients
Department of Homeland Security				
Passed through California Office of Emergency Services:				
Hazard Mitigation Grant Program	97.039	1911-11-11R FEMA-4305-DR-CA, CalOES 059-36000	50,588	-
Disaster Grants - Public Assistance	97.036		<u>187,717</u>	<u>-</u>
Subtotal Passed through the California Office of Emergency Services			<u>238,305</u>	<u>-</u>
Passed through County of Orange:				
Emergency Management Performance Grant	97.042	2017 EMPG Local Allocation	<u>27,731</u>	<u>-</u>
Total Department of Homeland Security			<u>266,036</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 4,351,904</u>	<u>\$ 67,486</u>

See accompanying notes to the schedule of expenditures of federal awards

CITY OF HUNTINGTON BEACH

Notes to the Schedule of Expenditures of Federal Awards

For the period October 1, 2017 through June 30, 2018

(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 and the audit requirement of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The City did not use the 10% de minimis indirect cost rate as covered in section 200.414 of the Uniform Guidance.

(2) 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 period October 1, 2017 through June 30, 2018	Loans Outstanding as of June 30, 2018
Community Development			
Block Grants/Entitlement Grants	14.218	\$ 16,650	\$ 2,592,639
HOME Investment Partnerships Program	14.239	-	15,165,936
Neighborhood Stabilization Program - HERA	14.228	-	486,975

CITY OF HUNTINGTON BEACH

Notes to the Schedule of Expenditures of Federal Awards

For the period October 1, 2017 through June 30, 2018

(3) 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 LE16096860 from October 1, 2017 – June 30, 2018

	Budget	Actual	Variance
Personnel costs	\$ 5,818	\$ 5,818	\$ -
Operating Expenses/Equipment	35,767	34,457	1,310
Total	<u>\$ 41,585</u>	<u>\$ 40,275</u>	<u>\$ 1,310</u>

Violence Against Women Formula Grant LE17016860 from October 1, 2017 – June 30, 2018

	Budget	Actual	Variance
Personnel costs	\$ 73,410	\$ 27,264	\$ 46,146
Operating Expenses/Equipment	129,733	74,852	54,881
Total	<u>\$ 203,143</u>	<u>\$ 102,116</u>	<u>\$ 101,027</u>

The loans are not subject to continuing compliance requirements. The outstanding loan requirements have not been included in the accompanying Schedule of Expenditures of Federal Awards.

CITY OF HUNTINGTON BEACH

Schedule of Findings and Questioned Costs

For the period October 1, 2017 through June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

- | | |
|---|---------------|
| 1. Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | None Reported |
| b. Significant deficiency(ies) identified? | 2018-001 |
| 3. Noncompliance material to the financial statements noted? | None Reported |

Federal Awards

- | | |
|--|---------------|
| 1. Internal control over major programs: | |
| a. Material weakness(es) identified? | None Reported |
| b. Significant deficiency(ies) identified? | None Reported |
| 2. Type of auditors' report issued on compliance for major programs: | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)? | None Reported |

4. Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

20.205

U.S. Department of Transportation:
Highway Planning and Construction Cluster

- | | |
|---|-----------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$750,000 |
| 6. Auditee qualified as a low-risk auditee? | Yes |

CITY OF HUNTINGTON BEACH

Schedule of Findings and Questioned Costs

For the period October 1, 2017 through June 30, 2018

Section II - Financial Statement Findings

(2018-001) Audit Adjustments Detected During the Audit Process

As a result of audit procedures performed for the fiscal year ended June 30, 2018, there were audit adjustments detected. The audit adjustments involved the overstatement of accounts receivable, overstatement of expenditures in construction in progress, reclassification of revenues to developer deposits, and an understatement in revenue accruals. A material prior period adjustment was also recorded for previously unrecorded developer contributed sewer facilities. Auditing standards define the restatement of previously issued financial statements to reflect the correction of a material misstatement as an indicator of a deficiency in internal control.

Recommendation

To minimize adjustments detected through the year end process, the City should establish procedures to identify adjustment in the reporting period in which the related transactions occurred. We recognize that it is not always possible to detect errors prior to the close of the fiscal year and, on occasion, the City's internal controls may identify adjustment in subsequent periods.

Management's Comments Regarding Corrective Actions Planned

The City will review its current closing and financial reporting processes and implement procedures to ensure transactions are reported in the proper reporting period.

Section III - Federal Award Findings and Questioned Costs

There are no federal award findings and questioned costs.

CITY OF HUNTINGTON BEACH

Summary Schedule of Prior Year Findings

For the period October 1, 2017 through June 30, 2018

Section IV – Summary Schedule of Prior Year Findings

There was a significant deficiency that was reported in the prior year *Government Auditing Standards* Independent Auditor's Report. That status of that finding is as follows:

Audit Adjustments Detected During the Audit Process

As a result of audit procedures performed for the fiscal year ended September 30, 2017, there was one material audit adjustment detected. The audit adjustment involved the overstatement of the accounts payable balance of the Grants Special Revenue fund.

Status

There were audit adjustments noted during the audit for the year ended June 30, 2018. As a result, the condition has not been corrected and a similar finding is being reported in the current year as item 2018-001.