

CITY OF HAWTHORNE, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2006

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CITY OF HAWTHORNE

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TABLE OF CONTENTS

	<u>Page Number</u>
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Report on Compliance with Requirements Applicable to Each Major Program, on Internal Control Over Compliance and on the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133	3
Schedule of Expenditures of Federal Awards for the Fiscal Year Ended June 30, 2006.....	5
Notes to the Schedule of Expenditures of Federal Awards.....	8
Schedule of Findings and Questioned Costs for the Fiscal Year Ended June 30, 2006	9
Schedule of Prior Year Findings and Questioned Costs for the Fiscal Year Ended June 30, 2005.....	11



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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*

To the Honorable Mayor and Members of the City Council
City of Hawthorne, California

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 Hawthorne, California, as of and for the year ended June 30, 2006, which collectively comprise the City of Hawthorne's basic financial statements and have issued our report thereon dated November 3, 2006. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hawthorne's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hawthorne's financial statements are free of 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 two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 06-1 and 06-2.





To the Honorable Mayor and Members of the City Council
City of Hawthorne, California

This report is intended solely for the information of the City Council, management, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Lance, Soll & Lunghard, LLP

November 3, 2006



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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM ON INTERNAL CONTROL OVER COMPLIANCE AND
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and Members of the City Council
City of Hawthorne, California

Compliance

We have audited the compliance of the City of Hawthorne, California, with the types of compliance requirements described in the United States Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. The City of Hawthorne's major federal programs are identified in the summary of auditor's result section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Hawthorne's management. Our responsibility is to express an opinion on the City of Hawthorne's compliance based on our audit.

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 of Hawthorne'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. Our audit does not provide a legal determination on the City of Hawthorne's compliance with those requirements.

In our opinion, the City of Hawthorne complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City of Hawthorne is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Hawthorne's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.





To the Honorable Mayor and Members of the City Council
City of Hawthorne, California

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

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 Hawthorne as of and for the year ended June 30, 2006, and have issued our report thereon dated November 3, 2006. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of the City Council, management, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Lance, Soll & Lunghard, LLP

January 31, 2007

CITY OF HAWTHORNE, CALIFORNIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through/ Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Direct Program:			
Community Development Block Grant	14.218	B-05-MC-06-0519	\$ 1,708,761
Home Investment Partnership Program (HOME)	14.239	M-05-MC-06-0513	981,340
Housing Assistance Payment Program Section 8*	14.871	HAPP Various	5,552,882
EDI Special Project Grant	14.246	B-01-SP-CA-0056	3,730
Section 108 Guaranteed Loan	14.248	Various	643,517
Passed through the County of Los Angeles and Other Cities:			
Housing Assistance Payment Program Section 8*	14.871	Various	<u>5,651,404</u>
Total U.S. Department of Housing and Urban Development			<u>14,541,634</u>
<u>U.S. Department of Labor</u>			
Passed through the State of California:			
Employment Development Department:			
Workforce Investment Act Cluster*	17.260	R485314 R588760 R692511	8,116,755
Passed through Los Angeles County:			
Adult Lennox (LA County-Lennox)	17.258	20019	96,645
Dislocated Workers Lennox (LA County-Lennox)	17.259	20060	151,453
Calworks Youth Jobs		CN20125	344,313
Employment and Training Research and Development Projects Cluster (GAIN) STEP		74892	945,166
L.A. County Probation Delinquency Prevention		640/05/075	3,846,678
L.A. County Superior Court		SC2005-01	36,288
L.A. County Probation Anti-Gang		640/05/119	20,000
Board of Corrections-CSA		328-05	35,000
City of Hawthorne - CDBG		06-H108	200,000
City of Inglewood - CDBG		05-113	1,000
City of Los Angeles-Title V		C-108936	20,000
LA County-Dispute Resolution Program		CK 50004	56,166
City of Hawthorne - Gateway		05-H177	217,327
Inglewood Unified School District		06-H109	110,920
L.A. Unified School District-SCPP		0642H4	12,000
L.A. County CSBG		CK35170	51,500
Hawthorne School District		06-H107	23,840
Traffic Safety-DPSS		OTS1005	112,500
			20,236

CITY OF HAWTHORNE, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

CONTINUED

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through/ Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Labor (Continued)</u>			
Passed through Los Angeles County (Continued):			
County of Los Angeles One-Stops*	17.258	01-H447	297,784
LA CO O/S & Foothill	17.259	18679	302,014
CTR LA CO		00-H240	75,000
One-Stop Navigator		WI-13228-03-60	146,770
Total U.S. Department of Labor			<u>15,239,355</u>
<u>U.S. Department of Justice</u>			
Direct Program:			
Office of National Drug Control Policy			
High Intensity Drug Trafficking Area Grant	16.728	I5PLAP534Z	2,922,751
		I4PLAP534Z	246,375
Bureau of Justice Assistance			
Local Law Enforcement Block Grant	16.592	03-LB-BX-2284	6,884
		04-LB-BX-1456	17,577
Federal Asset Forfeiture Program	16.000	Various	275,629
Passed through the State of California:			
Office of Emergency Services			
L.A. Regional Gang Information Network Grant*	16.579	DC04026850	209,409
		DC033Q6850	66,146
L.A. County Regional Criminal Information			
Clearinghouse Grant*	16.579	DC04146850	111,285
Total U.S. Department of Justice			<u>3,856,056</u>
<u>U.S. Department of Homeland Security</u>			
Passed through County of Los Angeles:			
State Homeland Security Grant Program	97.067	2004	44,684
Passed through City of Los Angeles:			
Urban Areas Security Initiative	97.067	2005	46,390
Total U.S. Department of Homeland Security			<u>91,074</u>

CITY OF HAWTHORNE, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

CONTINUED

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through/ Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Transportation</u>			
Passed through State of California Office of Traffic Safety: State and Community Highway Safety	20.600	-	21,319
Passed through State of California: Highway Planning and Construction	20.205	DPM-0031(017)	481,906
Direct Program: Federal Aviation Administration Airport Improvement Program	20.106	DTFA08-03-C-21698 DTFA08-02-C-21517	<u>203,974</u>
Total U.S. Department of Transportation			<u>707,199</u>
Total Federal Expenditures			<u>\$ 34,435,318</u>

*Major Program

- Note a: Refer to Note 1 of the City financial statements for a description of significant accounting policies used in preparing this schedule.
- Note b: There are no federal awards expended in the form of non-cash assistance, insurance in effect or loans or loan guarantees during the year.
- Note c: Total amount provided to subrecipients during the year from the Community Development Block Grant amounted to \$6,000.
- Note d: Total amount provided to subrecipients during the year from the Job Training Partnership Act Grant amounted to \$720,591.

CITY OF HAWTHORNE

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2006**

Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

a. Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the City of Hawthorne that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

b. Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

CITY OF HAWTHORNE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified Opinion

Internal control over financial reporting:

- Material weakness(es) identified? ☐yes ☒no
- Reportable condition(s) identified that are not considered to be material weakness(es)? ☐yes ☒none reported

Noncompliance material to financial statements noted? ☒yes ☐no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐yes ☒no
- Reportable condition(s) identified that are not considered to be material weakness(es)? ☐yes ☒none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☐yes ☒no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.871	Housing Assistance Payment Program Section 8
16.579	Edward Byrne Memorial Formula Grant Program
17.258/17.259/17.260	Workforce Investment Act Cluster

Dollar threshold used to distinguish between type A and type B program \$1,033,060

Auditee qualified as low-risk auditee? ☐yes ☒no

CITY OF HAWTHORNE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

CONTINUED

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Number: 06-1

Section 33334.16 of the Health and Safety Code requires a redevelopment agency to initiate activities to develop properties acquired with Low and Moderate Income Housing Funds within five years from the date of acquisition. If development activities have not begun within this period, the legislative body may adopt a resolution extending the period for one time, not to exceed five years. The Agency had acquired land with Low and Moderate Income Housing monies; however, activities have not been initiated to develop the property within five years from acquisition and the Agency has not timely requested the prescribed extension as of June 30, 2006. This situation has been brought to the attention of the Agency.

Finding Number: 06-2

Sections 33490 and 33413(b) of the Health and Safety Code require a redevelopment agency to produce Implementation Plans for each Project Area every five years. The Agency is delinquent in its preparation of its Five-year Implementation Plan, due December 31, 2004.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

CITY OF HAWTHORNE

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding Number: 05-1

- Federal Program
CFDA Number: 14.871
Title: Housing Assistance Payment Program Section 8
Federal Agency: U.S. Department of Housing and Urban Development
Award Number: HAPP Various
Pass-Through Entity: County of Los Angeles
- Criteria or Specific Requirement
OMB Circular A-133 requires that the grant recipient must inspect leases at least annually to ensure they meet HUD housing quality standards.
- Condition
During our review, we found instances where the annual inspection form to ensure that the rental unit meets HUD housing quality standards was missing from the tenant's file.
- Questioned Costs
\$0
- Effect
The City may not meet the compliance.
- Current Status
The files were updated and complete.