

**Single Audit Report
City of Hawthorne, California
Year ended June 30, 2013
with Report of Independent Auditors**

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**Report of Independent Auditors 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 Members of the City Council
City of Hawthorne**

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 Hawthorne, California (City), as of and for the year ended June 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 26, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

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. During our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item FS 2013-01 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Vargay + Company LLP

**Los Angeles, California
March 26, 2014**

Report of Independent Auditors on Compliance for Each Major Federal Program, on Internal Control Over Compliance, and on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

**The Honorable Members of the City Council
City of Hawthorne**

Report on Compliance for Each Major Federal Program

We have audited the City of Hawthorne'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 the City's major federal programs for the year ended June 30, 2013. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance 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 the major federal programs. However, our audit does not provide a legal determination of City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 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 of its major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal programs 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 the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses or significant deficiencies 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 June 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 26, 2014, which contained an unmodified opinion 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 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 basic 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.

Varguez + Company LLP

**Los Angeles, California
March 26, 2014**

City of Hawthorne
Schedule of Expenditures of Federal Awards
Year ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Program Identification Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Direct Assistance:			
Community Development Block Grant	14.218	B-09-MC-06-0519	\$ 481,421
Section 108 Guaranteed Loan	14.248	Various	736,240 *
Home Investment Partnership Program (HOME)	14.239	M-09-MC-06-0513	8,073
Housing Assistance Payment Program Section 8	14.871	HAPP Various	6,090,984 *
Passed through the County of Los Angeles and Other Cities:			
Housing Assistance Payment Program Section 8	14.871	Various	<u>5,004,953 *</u>
Total U.S. Department of Housing and Urban Development			<u>12,321,671</u>
<u>U.S. Department of Justice</u>			
Direct Assistance:			
Federal Asset Forfeiture Program	16.000	CA0192800	333,615
Juvenile Justice and Delinquency Prevention:			
CalGRIP	16.540	GR 10026850	74,225
Bureau of Justice Assistance:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010-BJ-DX-1543	16,503
Edward Byrne Memorial Justice Assistance Grant Program - ARRA	16.804	2009-SB-B9-2024	41,008
Total U.S. Department of Justice			<u>465,351</u>
<u>U.S. Department of Labor</u>			
Multisector NEG	17.277	EM-22035-11-60-A-6	77,580
Workforce Investment Act Cluster:			
LA County ITA Contract	17.260	IT111201	40,816
LA County Youth Employment	17.259	IA1103	103,755
Passed through the City of Pasadena:			
Foothill ETC	17.260	19755	5,046
Passed through the State of California:			
Office of Employment Development Department			
Workforce Investment Act Adult Program	17.258	K282511	242,196
Workforce Investment Act Formula Youth	17.259	K282511	172,288
Workforce Investment Act Dislocated Workers	17.278	K282511	222,053
Workforce Investment Act Dislocated Worker Formula Grants	17.278	K383263	88,142
Workforce Investment Act Formula Youth	17.259	K178686	44,924
Workforce Investment Act New Horizon	17.278	K28511	61,366
Workforce Investment Act Integrated	17.261	10-W002	11,675
Total U.S. Department of Labor			<u>1,069,841</u>

* Denotes major program

See accompanying notes to Schedule of Expenditures of Federal Awards.

City of Hawthorne
Schedule of Expenditures of Federal Awards (Continued)
Year ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Program Identification Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Homeland Security</u>			
Passed through the County of Los Angeles Hawthorne Mobility Improvement	97.067	2009-0019	495,111 *
Passed through the City of Los Angeles Urban Security Initiative Grant 2008/2009	97.067	C-118803	55,499 *
Urban Security Initiative Grant 2012	97.067	C-122011	57,243 *
Total U.S. Department of Homeland Security			<u>607,853</u>
<u>U.S. Department of Transportation</u>			
Direct Assistance: Federal Aviation Administration Airport Improvement Program-Noise Study	20.106	3-06-0101-012-2011	104,591
Passed through the County of Los Angeles Highway Planning and Construction 2009 Street Improvements	20.205	HSIPL-5253	528,988
Passed through the State of California Office of Traffic Safety: Sobriety Checkpoint Program	20.600	SC10171	50,895
Selective Traffic Enforcement Program	20.600	PT1376	41,296
Total U.S. Department of Transportation			<u>725,770</u>
<u>U.S. Department of Education</u>			
Passed through the State of California Department of Education: 21st Century Community Centers Learning Grant	84.287	19-14535-2377-4A	45,224
<u>U.S. Department of Health and Human Services</u>			
Passed Through County of Los Angeles: Temporary Assistance for Needy Families - LA County Single Allocation	93.558	COH0700103	2,903,451
Total U.S. Department of Health and Human Services			<u>2,903,451</u>
Total expenditures of federal awards			<u>\$ 18,139,161</u>

* Denotes major program

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Scope of Presentation

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

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.

NOTE 2 RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Grant expenditure reports as of June 30, 2013, which have been submitted to grantor agencies, will, in some cases, differ from amounts disclosed herein. The reports for grantor agencies are typically prepared at a later date and often reflect refined estimates of the year-end accruals.

NOTE 3 RELATIONSHIP TO FINANCIAL STATEMENTS

In accordance with the governmental Accounting Standards Board's Statements No. 61 and 39 "Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14," activities relating to all federal financial assistance programs are blended in the City's financial statements as special revenue funds.

NOTE 4 MAJOR PROGRAMS

The following Catalog of Federal Domestic Assistance (CFDA) programs were tested as major programs:

Section 108 Guaranteed Loan	CFDA #14.248
Housing Assistance Payment Program Section 8	CFDA #14.871
State Homeland Security Program/Urban Security Initiative Grants	CFDA #97.067

NOTE 5 PAYMENTS TO SUBRECIPIENTS

There were subrecipient grants awarded from U.S. Department of Housing and Urban Development, Community Development Block Grant - Entitlement Grant. These subrecipient grants totaled \$140,656.

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued on the financial statements: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified: No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes

Noncompliance material to the financial statements noted: No

Federal Awards

Internal control over its major programs:

- Material weakness(es) identified: No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? 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 Section .510(a) of OMB Circular A-133? None

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.248	Section 108 Guaranteed Loan
14.871	Housing Assistance Payment Program - Section 8
97.067	State Homeland Security Program / Urban Security Initiative Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$544,175

Auditee qualified as a low-risk auditee: No

Section II – Financial Statement Findings

FS 2013-01: Internal controls related to the preparation of the Schedule of Expenditures of Federal Awards (SEFA)

Condition and Context

During our audit, we noted that non-federal expenditures in the amount of \$471,707 relating to the Highway Planning and Construction Program (CFDA 20.205) were erroneously recorded on the SEFA as federal expenditures.

Cause and Effect

The City's processes and controls over SEFA preparation and review were not sufficient to ensure that only Federally-funded expenditures were included on the SEFA.

Recommendation

We recommend that the City ensure that key internal control processes are implemented including proper classification and recording of expenditures that are funded by federal funds. Adequate review of the SEFA should be performed by personnel knowledgeable of federal requirements.

Management Response

The City of Hawthorne is aware that a non-federal grant was included in the SEFA and corrected the item. Personnel have been made aware and all future reports will be reviewed prior to the audit.

Section III – Federal Award Findings

None

City of Hawthorne
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2013

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
Financial Statement Findings				
2012-01	We noted that the schedule of notes and loans receivable was not updated and reconciled with the general ledger. We were unable to review documentation supporting total loans receivable of approximately \$6.5 million as of June 30, 2012. Moreover, review of collectibility of the accounts was not performed as of June 30,2012.	We recommend that the City of Hawthorne review the collectibility of all notes and loans receivable and reconcile the balance to the general ledger as part of the monthly closing process. Moreover, all documents including loan agreements supporting the balance of each loan should be properly filed.	Implemented	Not applicable

Federal Award Findings

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
2012-01	Housing Assistance Payment Program – Section 8 Eligibility & Special Tests and Provisions – Housing Assistance Payments From a sample of thirty (30) tenants selected we noted that one (1) tenant reported his/her income incorrectly. Furthermore, based upon review of the tenant file we noted no documentation supporting how this issue was resolved.	We recommend that the Housing Authority of the City of Hawthorne implement procedures designed to ensure compliance with applicable federal laws as well as its own housing rules and regulations.	Implemented	Not applicable

Federal Award Findings

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
2012-02	Housing Assistance Payment Program – Section 8 Special Tests and Provisions – Housing Quality Standards Inspection Enforcement	We recommend that the Housing Authority of the City of Hawthorne implement procedures designed to ensure compliance with applicable federal laws as well as its own housing rules and regulations regarding maintaining HQS.	Implemented	Not applicable
	From a sample of fifteen (15) failed inspections, we noted four (4) homes for which the required deficiencies were not corrected within the specified time period.			

