

**Single Audit Report
City of Hawthorne, California
Year ended June 30, 2014
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 Mayor and Members of the City Council
City of Hawthorne, California**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hawthorne, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 29, 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 the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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. 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.

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.

Vasquez + Company LLP

**Los Angeles, California
December 29, 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 Mayor and Members of the City Council
City of Hawthorne, California**

Report on Compliance for Each Major Federal Program

We have audited the City of Hawthorne, 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 each of the City's major federal programs for the year ended June 30, 2014. 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 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 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 June 30, 2014.



Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as finding 2014-001. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 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 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 29, 2014, 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 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.

Vasquez + Company LLP

Los Angeles, California

March 24, 2015, except for our report on the Schedule of Expenditures of Federal Awards, for which the date is December 29, 2014

City of Hawthorne
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

<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	\$ 385,960
Section 108 Guaranteed Loan	14.248	Various	585,187
Home Investment Partnership Program (HOME)	14.239	M-09-MC-06-0513	20,847
Housing Assistance Payment Program Section 8	14.871	HAPP Various	5,909,816 *
Passed through the County of Los Angeles and Other Cities:			
Housing Assistance Payment Program Section 8	14.871	Various	4,736,468 *
Total U.S. Department of Housing and Urban Development			<u>11,638,278</u>
<u>U.S. Department of Justice</u>			
Direct Assistance:			
Federal Asset Forfeiture Program	16.922	CA0192800	895,548 *
Bureau of Justice Assistance:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-1199	48,825
Office of Community Oriented Policing Services	16.710	2012CKWXK008	214,781
Total U.S. Department of Justice			<u>1,159,154</u>
<u>U.S. Department of Homeland Security</u>			
Passed through the City of Los Angeles:			
Urban Security Initiative Grant 2012	97.067	C-122011	70,863
Urban Security Initiative Grant 2013	97.067	C-123196	58,804
Total U.S. Department of Homeland Security			<u>129,667</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	39,386 *
Airport Improvement Program - Emergency Generator	20.106	3-06-0101-013-2011	34,900 *
Airport Improvement Program - Control Tower	20.106	3-06-0101-014-2012	727,105 *
Passed through State of California			
Office of Traffic Safety:			
Sobriety Checkpoint Program	20.600	SC14171	44,300
Selective Traffic Enforcement Program	20.600	PT14131	76,170
Total U.S. Department of Transportation			<u>921,861</u>
Total expenditures of federal awards			<u>\$ 13,848,960</u>

* Denotes major program

See accompanying notes to schedule of expenditures of federal awards and report of independent auditors on compliance for each federal major program, on internal control over compliance, and on the schedule of expenditures of federal awards required by OMB Circular A-133

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, 2014, 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 Statement No. 61, Financial Reporting Entity and Statement No. 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:

Housing Assistance Payment Program Section 8	CFDA No. 14.871
Federal Asset Forfeiture Program	CFDA No. 16.922
Airport Improvement Program	CFDA No. 20.106

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 \$105,096 for the year ended June 30, 2014.

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? No

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? Yes

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.871	Housing Assistance Payment Program Section 8
16.922	Federal Asset Forfeiture Program
20.106	Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B programs: \$415,469

Auditee qualified as a low-risk auditee: No

Section II – Financial Statement Findings

None

Section III – Federal Award Findings

Finding 2014-001 – Equipment Management – Policies and Procedures

Federal Program Information

<i>Federal Catalog Number:</i>	16.922
<i>Federal Program Name:</i>	Federal Asset Forfeiture Program
<i>Federal Agency:</i>	U.S. Department of Justice
<i>Federal Award Number:</i>	CA0192800

Criteria or Specific Requirement

The Guide to Equitable Sharing for State and Local Law Enforcement Agencies, Section IX (p. 26) states that all participating state and local law enforcement agencies must implement standard accounting procedures and internal controls (e.g., tracking share requests and receipts, electronically depositing shares into a separate revenue account or accounting code) to track equitably shared monies and tangible property. This provision includes items received for official use purposes. Standard accounting procedures and internal controls for federally funded programs defer to the regulations set forth by the agency responsible for the program when such policies are not specifically described within the program guidance and when there is no equivalent internal control policy set forth by the City itself.

As such, Title 28 – Judicial Administration, Part 66 – *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Subpart C – Post-Award Requirements Changes, Property, and Subawards*, Section 66.32d Equipment Management Requirements is applicable and states the following:

Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of the property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.

Section III – Federal Award Findings (Continued)

- (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

Condition

We noted certain weaknesses in the controls and procedures over equipment management. Procedures and controls were not properly designed to comply with federal requirements over updating inventory records and safeguarding of capital assets. We further noted that the City's property records were missing essential data elements required by the federal regulations such as serial number, location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Effect

The lack of controls over updating inventory records and safeguarding of capital assets may increase the risk of theft/misappropriation of program equipment occurring and remaining undetected, and results in a violation of federal program guidelines.

Questioned Costs

Not applicable.

Recommendation

We recommend the City strengthen its policy over tracking and recording of capital assets. These policies should include appropriate identification, tracking, physical inventories, and reconciliations to promote accurate reporting and reduce the risk of misappropriation of program assets.

Views of Responsible Officials and Planned Corrective Action

The City of Hawthorne appreciates and welcomes the recommendation. However, historically this was not identified as a weakness nor was city staff aware of the requirement for controls over inventory as outlined in the weakness identified. Staff attempted on various occasions to obtain clarity for controls over inventory and was not provided with any directions on what action were necessary or required to properly track and safeguarding of assets. Based on the recommendation listed above, the City is in the process on establishing controls and procedures to include essential data elements discussed and will maintain continuous and updated records of data elements required by the federal regulations.

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
Financial Statement Findings				
2013-01	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.	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.	Implemented	Not applicable



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