



**City of Hawthorne, California**  
**Single Audit Report**  
*As of and for the Year Ended June 30, 2015*  
*With Report of Independent Auditors*

An Independently Owned Member  
**McGLADREY ALLIANCE**



**Vasquez**  
**& Company LLP**  
Certified Public Accountants and Business Consultants

**City of Hawthorne, California**  
**Single Audit Report**  
***As of and for the Year Ended June 30, 2015***  
***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, 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, business-type activities, each major fund, and the aggregate remaining fund information of the City of Hawthorne, California (City), as of and for the year ended June 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 December 30, 2015.

**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 result of that testing, and not to provide an opinion on the effectiveness of the City'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.

*Vargus + Company LLP*

**Los Angeles, California  
December 30, 2015**

**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, 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 on each of the City's major federal programs for the year ended June 30, 2015. 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 programs 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 its major federal programs for the year ended June 30, 2015.

### **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 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 government 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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 30, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion 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.

*Vargay + Company LLP*

**Los Angeles, California  
December 30, 2015**



**City of Hawthorne, California**  
**Schedule of Expenditures of Federal Awards**  
**Year ended June 30, 2015**

<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>
<b><u>U.S. Department of Housing and Urban Development</u></b>			
Direct Assistance:			
Community Development Block Grant	14.218	B-09-MC-06-0519	\$ 442,756 *
Section 108 Guaranteed Loan	14.248	Various	681,616
Home Investment Partnership Program (HOME)	14.239	M-09-MC-06-0513	1,103,785 *
Housing Assistance Payment Program Section 8	14.871	HAPP Various	5,899,519 *
Passed through the County of Los Angeles and Other Cities:			
Housing Assistance Payment Program Section 8	14.871	Various	<u>3,976,441 *</u>
Total U.S. Department of Housing and Urban Development			<u>12,104,116</u>
<b><u>U.S. Department of Justice</u></b>			
Direct Assistance:			
Federal Asset Forfeiture Program	16.922	CA0192800	1,064,649
Bureau of Justice Assistance:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-DJ-BX-2931	7,084
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-DJ-BX-0282	52,262
Office of Community Oriented Policing Services	16.710	2012CKWXK008	<u>161,862</u>
Total U.S. Department of Justice			<u>1,285,858</u>
<b><u>U.S. Department of Transportation</u></b>			
Direct Assistance:			
Federal Aviation Administration:			
Airport Improvement Program - Noise Study	20.106	3-06-0101-012-2011	5,092
Airport Improvement Program - Control Tower	20.106	3-06-0101-014-2012	246,508
Passed through the County of Los Angeles:			
2009 Street Improvement - Inglewood Avenue Signals	20.205	HSIPL - 5253	80,000
Passed through State of California:			
Office of Traffic Safety:			
Sobriety Checkpoint Program	20.600	SC14171	16,279
Selective Traffic Enforcement Program	20.600	PT14131	<u>62,977</u>
Total U.S. Department of Transportation			<u>410,856</u>
Total expenditures of federal awards			<u>\$ 13,800,831</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           SUB-RECIPIENTS**

There were subrecipient grants awarded from the U.S. Department of Housing and Urban Development, Community Development Block Grant - Entitlement Grant. These subrecipient grants totaled \$219,789 for the year ended June 30, 2015.

**NOTE 3           RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

Grant expenditure reports as of June 30, 2015, 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 4           RELATIONSHIP TO THE BASIC 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.

**City of Hawthorne, California**  
**Schedule of Findings and Questioned Costs**  
**Year ended June 30, 2015**

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**Section I – Summary of Auditors’ Results**

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**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?	None reported
Noncompliance material to financial statements noted	No

**Federal Awards**

Internal control over its major programs	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditors’ report issued on compliance with respect to major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB A-133	None

**Identification of Major Programs:**

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.218	Community Development Block Grant
14.239	Home Investment Partnership Program
14.871	Section 8 Housing Choice Vouchers Program

Dollar threshold used to distinguish between Type A and Type B programs	\$414,025
Auditee qualified as a low-risk auditee	No

**City of Hawthorne, California**  
**Schedule of Findings and Questioned Costs**  
**Year ended June 30, 2015**

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**Section II – Financial Statement Findings**

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There were no financial statement findings noted during the fiscal year ended June 30, 2015.

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**Section III – Federal Award Findings**

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There were no federal award findings noted during the fiscal year ended June 30, 2015.

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**Section II – Financial Statement Findings**

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There were no financial statement findings noted during the fiscal year ended June 30, 2014.

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**Section III – Federal Award Findings**

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**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.

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**Section III – Federal Award Findings (Continued)**

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- (4) Adequate maintenance procedures must be developed to keep the property in good condition.
  
- (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.

***Status***

Implemented.



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