

City of Hawthorne, California

Single Audit Report on Federal Awards
Year Ended June 30, 2016



ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

City of Hawthorne
Single Audit Report on Federal Awards

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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*

Independent Auditor's Report

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Jay H. Zercher, CPA (Partner Emeritus)
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To the Honorable Mayor and Members of City Council
of the City of Hawthorne
Hawthorne, California

MANAGERS / STAFF

Jenny Liu, CPA, MST
Seong-Hyea Lee, CPA, MBA
Charles De Simoni, CPA
Nathan Statham, CPA, MBA
Gardenya Duran, CPA
Brianna Schultz, CPA
Lisa Dongxue Guo, CPA, MSA

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 Hawthorne, California (City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 28, 2017.

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.

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Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given those limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 non-compliance 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.

Rogers, Anderson, Malody & Scott, LLP

San Bernardino, California
February 28, 2017



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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

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Independent Auditor's Report

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

We have audited the City of Hawthorne's (City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) 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, 2016. The City's major federal programs are identified in the summary of auditor's 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.

Auditor's 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) 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's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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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, 2016.

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 as a basis for designing 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 the 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 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the government 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated February 28, 2017, 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 the 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 expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Rogers, Anderson, Malody & Scott, LLP

San Bernardino, California

March 27, 2017(except for our report on the Schedule of Expenditures of Federal Awards, for which the date is February 28, 2017).

City of Hawthorne

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

| Federal Grantor/ Pass-Through Grantor/ Program Title | Federal CFDA Number | Agency or Pass-Through Number | Federal Expenditures | Amount Provided to Subrecipients |
|---|---------------------------|-------------------------------------|-----------------------------|--|
| U.S. Department of Housing and Urban Development | | | | |
| <i>Direct Assistance:</i> | | | | |
| Community Development Block Grant | 14.218 | B-09-MC-06-0519 | \$ 458,891 | \$ 258,387 |
| CDBG 108 Guaranteed Loan | 14.248 | Various | 396,484 | 140,394 |
| Home Investment Partnership Program (HOME) | 14.239 | M-09-MC-06-0513 | 226,826 | - |
| Housing Assistance Payment Program Section 8 | * 14.871 | HAPP Various | 6,036,550 | - |
| <i>Passed through the County of Los Angeles and Other Cities:</i> | | | | |
| Housing Assistance Payment Program Section 8 | * 14.871 | various | 3,142,895 | - |
| | | <i>Subtotal CFDA 14.871</i> | <u>9,179,445</u> | <u>-</u> |
| Total U.S. Department of Housing and Urban Development | | | 10,261,646 | 398,781 |
| U.S. Department of Justice | | | | |
| <i>Direct Assistance:</i> | | | | |
| Equitable Sharing Program (Federal Asset Forfeiture Program) | 16.922 | CA0192800 | 947,058 | - |
| <i>Bureau of Assistance:</i> | | | | |
| Office of Community Oriented Policing Services | 16.710 | CA-90-Z133 | 38,570 | - |
| Edward Byrne Justice Assistance Grant - 2012 | 16.738 | 2012-DJ-BX-1015 | 41,722 | - |
| Edward Byrne Justice Assistance Grant - 2015 | 16.738 | 2015-DJ-BX-0539 | 3,552 | - |
| | | <i>Subtotal CFDA 16.738</i> | <u>45,274</u> | <u>-</u> |
| Total U.S. Department of Justice | | | 1,030,902 | - |
| U.S. Department of Homeland Security | | | | |
| <i>Passed through the City of Los Angeles</i> | | | | |
| Urban Area Security Initiative Grant Program 2014 | 97.067 | CF 14-0820 | 34,598 | - |
| Urban Area Security Initiative Grant Program 2015 | 97.067 | C-127252 | 128,507 | - |
| Total U.S. Department of Homeland Security | | | <i>Subtotal CFDA 97.067</i> | 163,105 |
| U.S. Department of Transportation | | | | |
| <i>Direct Assistance:</i> | | | | |
| <i>Federal Aviation Administration:</i> | | | | |
| Airport Improvement Program - Noise Study | 20.106 | 3-06-0101-012-2011 | 8,160 | - |
| Airport Improvement Program - Control Tower | 20.106 | 3-06-0101-014-2012 | 50,073 | - |
| | | <i>Subtotal CFDA 20.106</i> | <u>58,233</u> | <u>-</u> |
| <i>Passed through the County of Los Angeles:</i> | | | | |
| 2009 Street Improvements - Inglewood Avenue Signals | 20.205 | HSIPL-5253 | 80,504 | - |
| <i>Passed through the State of California:</i> | | | | |
| <i>Office of Traffic Safety:</i> | | | | |
| Selective Traffic Enforcement Program 10/15-9/16 | 20.600 | PT14131 | 155,110 | - |
| Total U.S. Department of Transportation | | | 293,847 | - |
| Total Expenditures of Federal Awards | | | \$ 11,749,500 | \$ 398,781 |

* Major Program

NOTE 1: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (SEFA), includes the federal awards activity of the City of Hawthorne (the "City") that are reimbursable under federal programs of federal government for the year ended June 30, 2016. The information in this SEFA is presented in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or fund balance, or cash flows of the City. For the purposes of this schedule, federal financial assistance includes both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from a nonfederal agency or other organization. Only that portion of program expenditures reimbursable with such federal funds are 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the SEFA, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The City has elected to use the 10-percent de minimis indirect cost rate, where applicable, allowed under the Uniform Guidance.

NOTE 3: SUBRECIPIENTS

There were subrecipient grants awarded from the U.S. Department of Housing and Urban Development, Community Development Block Grant. These subrecipient grants totaled \$398,781 for the year ended June 30, 2016.

NOTE 4: RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Grant expenditure reports as of June 30, 2016, 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 5: RELATIONSHIP TO COMPREHENSIVE ANNUAL FINANCIAL REPORT

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree to amounts reported within the City's Comprehensive Annual Financial Report.

NOTE 6: CONTINGENCIES

Under the terms of federal and state grants, additional audits may be requested by the grantor agencies and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies

Schedule of Findings and Questioned Costs
 Section I: Summary of Auditor's Results
 Year Ended June 30, 2016

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

| | | | | |
|--|-------|-----|---------------|---------------|
| Material weakness identified? | _____ | Yes | _____ X _____ | No |
| Significant deficiencies identified that are not considered to be material weaknesses? | _____ | Yes | _____ X _____ | None Reported |
| Noncompliance material to financial statements noted? | _____ | Yes | _____ X _____ | No |

Federal Awards

Internal control over major programs:

| | | | | |
|--|-------|-----|---------------|---------------|
| Material weakness identified? | _____ | Yes | _____ X _____ | No |
| Significant deficiencies identified that are not considered to be material weaknesses? | _____ | Yes | _____ X _____ | None Reported |

Type of auditor's report issued on compliance for major programs: Unmodified

| | | | | |
|--|-------|-----|---------------|----|
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | _____ | Yes | _____ X _____ | No |
|--|-------|-----|---------------|----|

Identification of major programs:

| | |
|--------------------|--|
| <u>CFDA Number</u> | <u>Name of Federal Program</u> |
| 14.871 | Housing Assistance Payment Program Section 8 |

Dollar threshold used to distinguish between type A and type B programs: \$750,000

| | | | | |
|--|---------------|-----|-------|----|
| Auditee qualified as low-risk auditee? | _____ X _____ | Yes | _____ | No |
|--|---------------|-----|-------|----|

City of Hawthorne

Schedule of Findings and Questioned Costs
Section II: Financial Statements Findings
Year Ended June 30, 2016

There were no financial statement findings noted during the fiscal year ended June 30, 2016.

City of Hawthorne

Schedule of Findings and Questioned Costs
Section III: Federal Awards Findings and Questioned Costs
Year Ended June 30, 2016

There were no federal award findings or questioned costs noted during the fiscal year ended June 30, 2016.