

City of Hawthorne, California

Single Audit Report on Federal Awards
Year Ended June 30, 2020



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

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Independent Auditor's Report

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

MANAGERS / STAFF

Charles De Simoni, CPA
Gardenya Duran, CPA
Brianna Schultz, CPA
Jingjie Wu, CPA
Evelyn Morentin-Barcena, CPA
Veronica Hernandez, CPA
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Abigail Hernandez Conde, CPA, MSA
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John Maldonado, CPA, MSA

We have audited, 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, 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 (the City) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 12, 2021.

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 City'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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
January 12, 2021



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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 IN ACCORDANCE WITH THE UNIFORM GUIDANCE

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Independent Auditor's Report

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

Report of Compliance for Each Major Federal Program

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We have audited the City of Hawthorne's (the 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, 2020. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002. Our opinion on the City's major programs is not modified with respect to these matters.

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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

The purpose of this report in 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 City, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated January 12, 2021, 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 26, 2021 (except for our report on the Schedule of Expenditures of Federal Awards, for which the date is January 12, 2021)

City of Hawthorne
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

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 Cluster	14.218	B-09-MC-06-0519	\$ 1,258,634	\$ 94,658
Total - CFDA 14.218			<u>1,258,634</u>	<u>94,658</u>
Home Investment Partnership Program (HOME)	14.239	M-09-MC-06-0513	210,079	-
Total - CFDA 14.239			<u>210,079</u>	<u>-</u>
CDBG 108 Guaranteed Loan	14.248	Various	401,894	-
Total - CFDA 14.248			<u>401,894</u>	<u>-</u>
Housing Assistance Payment Program Section 8	14.871	HAPP Various	7,156,158	-
COVID-19 Housing Assistance Payment - CARES Act 2020	14.871	CA126AF0209	30,066	-
<i>Passed through the County of Los Angeles and Other Cities:</i>				
Housing Assistance Payment Program Section 8	14.871	Various	3,677,140	-
Total - CFDA 14.871			<u>10,863,364</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development			<u>12,733,971</u>	<u>94,658</u>
U.S. Department of Justice				
<i>Direct Assistance:</i>				
<i>Bureau of Assistance:</i>				
Edward Byrne Justice Assistance Grant - 2015	16.738	2016-DJ-BX-0376	3	-
Total - CFDA 16.738			<u>3</u>	<u>-</u>
Equitable Sharing Program (Federal Asset Forfeiture Program)	16.922	CA0192800	890,904	-
Total - CFDA 16.922			<u>890,904</u>	<u>-</u>
Total U.S. Department of Justice			<u>890,907</u>	<u>-</u>
U.S. Department of Transportation				
<i>Direct Assistance:</i>				
<i>Federal Aviation Administration:</i>				
Airport Improvement Program - Airport Master/Layout Plan	20.106	3-06-0101-016-2016	1,701	-
Airport Improvement Program - Runway Rehab Seal Coat Project	20.106	3-06-0101-017-2019	313,790	-
Airport Improvement Program - Noise Study	20.106	3-06-0101-018-2019	245,544	-
Airport Improvement Program - FAA Coronavirus Relief	20.106	3-06-0101-019-2020	69,000	-
Total - CFDA 20.106			<u>630,035</u>	<u>-</u>
Street Improvements - Prairie Avenue Traffic & Signal Lighting	20.205	HSIPL-5253(020)	603,674	-
Total - CFDA 20.205			<u>603,674</u>	<u>-</u>
<i>Passed through the State of California:</i>				
<i>Office of Traffic Safety:</i>				
Selective Traffic Enforcement Program	20.600	PT18054	102,884	-
Selective Traffic Enforcement Program	20.600	MC18001	61,428	-
Total - CFDA 20.600			<u>164,312</u>	<u>-</u>
Total U.S. Department of Transportation			<u>1,398,021</u>	<u>-</u>
U.S. Department of Treasury				
<i>Direct Assistance:</i>				
Equitable Sharing Program (Federal Asset Forfeiture Program)	21.016	CA0192800	9,151	-
Total - CFDA 21.016			<u>9,151</u>	<u>-</u>
Total U.S. Department of Treasury			<u>9,151</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 15,032,050</u>	<u>\$ 94,658</u>

See accompanying notes to the schedule of expenditures of federal awards.

City of Hawthorne
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

NOTE 1: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal award activity of the City of Hawthorne (the City) that are reimbursable under federal programs of the federal government for the year ended June 30, 2020. 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 modified 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

During the fiscal year ended June 30, 2020, the City disbursed \$94,658 of federal awards to several subrecipients.

**City of Hawthorne
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2020**

Section I - Summary of Auditor's Results

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?	<u> </u>	Yes	<u> X </u>	No
Significant deficiencies identified that are not considered to be material weaknesses?	<u> </u>	Yes	<u> X </u>	None Reported
Noncompliance material to financial statements noted?	<u> </u>	Yes	<u> X </u>	No

Federal Awards

Internal control over major programs:

Material weakness identified?	<u> </u>	Yes	<u> X </u>	No
Significant deficiencies identified that are not considered to be material weaknesses?	<u> </u>	Yes	<u> X </u>	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)?	<u> X </u>	Yes	<u> </u>	No
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Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.871	Housing Assistance Payment Program Section 8
16.922	Equitable Sharing Program (Federal Asset Forfeiture Program)

Dollar threshold used to distinguish between type A and type B programs:	<u> \$750,000 </u>
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Auditee qualified as low-risk auditee?	<u> X </u>	Yes	<u> </u>	No
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**City of Hawthorne
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2020**

Section II: Financial Statement Findings

No findings to be reported.

Section III: Federal Awards Findings and Questioned Costs

**2020-001 – Eligibility and Special Test and Provisions
*Noncompliance***

Federal Program

Housing Assistance Payment Program Section 8, CFDA 14.871

Criteria

Per Section 4 E (1) Eligibility for Individuals of the OMB Uniform Guidance Compliance Supplement, the public housing agency (PHA) must determine income eligibility and calculate the tenant's rent payment using the documentation from third-party verification in accordance with 24 CFR part 5 subpart F.

Per Section 4 N (2) Reasonable Rent of the OMB Uniform Guidance Compliance Supplement, the PHA must determine that the rent to owner is reasonable at the time of initial leasing. Also, the PHA must determine reasonable rent during the term of the contract (a) before any increase in the rent to owner, and (b) at the HAP contract anniversary if there is a five percent decrease in the published Fair Market Rent in effect 60 days before the HAP contract anniversary. The PHA must maintain records to document the basis for the determination that rent to owner is a reasonable rent.

Condition

During the audit, we noted six instances where the reasonable rent test was not performed prior to the rent increases. In addition, we noted one instance where the test was performed but the documentation was misplaced and not maintained in the records.

Cause

The City did not follow procedures for verifying that the rent increases were reasonable prior to increasing payments to participants.

Effect

The City could have been providing inappropriate amounts of payment to participants.

Questioned Costs

No questioned costs.

City of Hawthorne
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2020

2020-001 – Eligibility and Special Test and Provisions (continued)
Noncompliance

Identification as a Repeat Finding

This is not a repeat finding.

Recommendation

We recommend the City adhere to the rent reasonableness requirements set forth by the compliance supplement.

Views of Responsible Officials

See attached Corrective Action Plan.

2020-002 – Eligibility
Noncompliance

Federal Program

Housing Assistance Payment Program Section 8, CFDA 14.871

Criteria

Per 24 CFR sections 5.230, 5.609, and 982.516, the public housing agency (PHA) must as a condition of admission or continued occupancy, require the tenant and other family members to provide necessary information, documentation, and releases for the PHA to verify income eligibility.

Condition

During the audit, we noted one instance where the release form was not signed by the head of household.

Cause

The City did not follow procedures for verifying that the release form was properly signed.

Effect

The City did not obtain the necessary release forms to allow the PHA to obtain information from third parties.

Questioned Costs

No questioned costs.

City of Hawthorne
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2020

2020-002 – Eligibility (continued)
Noncompliance

Identification as a Repeat Finding

This is not a repeat finding.

Recommendation

We recommend the City verify that all required release forms are signed and maintained in the participant file as set forth by the compliance supplement.

Views of Responsible Officials

See attached Corrective Action Plan.

**City of Hawthorne
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020**

Financial Statement Findings

No prior year findings to report.

Federal Awards Findings and Questioned Costs

No prior year findings to report.



RESPONSE TO 2020 SINGLE AUDIT

2020-001 – Eligibility and Special Test and Provisions *Noncompliance*

Cause

The City did not follow procedures for verifying that the rent increases were reasonable prior to increasing payments to participants.

Effect

The City could have been providing inappropriate amounts of payment to participants.

Corrective Action Plan

Effective April 1, 2021, Housing staff will be required to submit 100% of Rent Increase request for review before creating a certification and submitting a new 50058 to MTCS for HUD reporting. This will ensure each applicable file has the required rent reasonable test and will determine if staff are taking the correct action.

2020-002 – Eligibility *Noncompliance*

Cause

The City did not follow procedures for verifying that the release form was properly signed.

Effect

The City did not obtain the necessary release forms to allow the PHA to obtain information from third parties.

Corrective Action Plan

Effective April 1, 2021, Housing staff will receive a refresher training on the on the proper collection of all data ensuring that required forms are fully executed before moving a file on to the next stage of processing. Additionally, at least 10% of the staff's file will be reviewed for completeness as a back up to ensure that regulations are followed and maintained.

Thank you,

Kimberly Mack
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