

City of Hawthorne, California

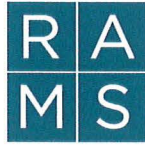
Single Audit Report on Federal Awards
Year Ended June 30, 2021



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

City of Hawthorne
Single Audit Report on Federal Awards
Table of Contents

	<u>Page</u>
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required in Accordance with the Uniform Guidance	3
Schedule of Expenditures of Federal Awards	7
Notes to the Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs:	
Section I: Summary of Auditor's Results	9
Section II: Financial Statements Findings	10
Section III: Federal Awards Findings and Questioned Costs	11
Summary Schedule of Prior Audit Findings	13
Corrective Action Plan	14



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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**

PARTNERS

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Leena Shanbhag, CPA, MST, CGMA
Bradferd A. Welebir, CPA, MBA, CGMA
Jenny W. Liu, CPA, MST
Brenda L. Odle, CPA, MST (Partner Emeritus)

Independent Auditor's Report

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

MANAGERS / STAFF

Gardenya Duran, CPA, CGMA
Brianna Schultz, CPA, CGMA
Seong-Hyea Lee, CPA, MBA
Evelyn Morentin-Barcena, CPA
Veronica Hernandez, CPA
Laura Arvizu, CPA
Xinlu Zoe Zhang, CPA, MSA
John Maldonado, CPA, MSA
Thao Le, CPA, MBA
Julia Rodriguez Fuentes, CPA, MSA
Demi Hite, CPA

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, 2021, 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 31, 2022.

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) as a basis for designing 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

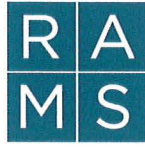
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 31, 2022



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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

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Report of Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Hawthorne's (the City) compliance with the types of compliance requirements identified as subject to audit in the *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, 2021. 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.

In our opinion, the City complied, in all material respects, with the 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, 2021.

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Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2021-001 and 2021-002. Our opinion on the City's major programs is not modified with respect to these matters.

The City's response to the noncompliance findings 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.



Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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 a 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 audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon, dated January 31, 2022, 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 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

June 8, 2022 (except for our report on the Schedule of Expenditures of Federal Awards, for which the date is January 31, 2022)

City of Hawthorne
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal Assistance Listing 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-20-MC-06-0519	\$ 503,697	\$ 123,418
COVID-19 CARES Act - CDBG	14.218	B-20-MW06-0519	354,322	-
Total - Assistance Listing 14.218			<u>858,019</u>	<u>123,418</u>
Home Investment Partnership Program (HOME)	14.239	M-09-MC-06-0513	49,564	-
Total - Assistance Listing 14.239			<u>49,564</u>	<u>-</u>
CDBG 108 Guaranteed Loan	14.248	Various	36,527	-
Total - Assistance Listing 14.248			<u>36,527</u>	<u>-</u>
Housing Assistance Payment Program Section 8	14.871	HAPP Various	7,558,048	-
COVID-19 Housing Assistance Payment - CARES Act 2020	14.871	CA126AF0209	224,944	-
<i>Passed through the County of Los Angeles and Other Cities:</i>				
Housing Assistance Payment Program Section 8	14.871	Various	3,638,005	-
Total - Assistance Listing 14.871			<u>11,420,997</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development			<u>12,365,107</u>	<u>123,418</u>
U.S. Department of Justice				
<i>Direct Assistance:</i>				
Bureau of Assistance:				
Coronavirus Emergency Supplement Funding Program	16.034	2020-VD-BX-1535	70,523	-
Total - Assistance Listing 16.034			<u>70,523</u>	<u>-</u>
Edward Byrne Justice Assistance Grant - 2019	16.738	2019-DJ-BX-0866	43,778	-
Total - Assistance Listing 16.738			<u>43,778</u>	<u>-</u>
Equitable Sharing Program (Federal Asset Forfeiture Program)	16.922	CA0192800	1,110,022	-
Total - Assistance Listing 16.922			<u>1,110,022</u>	<u>-</u>
Total U.S. Department of Justice			<u>1,224,323</u>	<u>-</u>
U.S. Department of Transportation				
<i>Direct Assistance:</i>				
Federal Aviation Administration:				
Airport Improvement Program - Noise Study	20.106	3-06-0101-018-2019	72,442	-
Total - Assistance Listing 20.106			<u>72,442</u>	<u>-</u>
<i>Passed through the County of Los Angeles -</i>				
<i>Department of Transportation:</i>				
Street Improvements - Prairie Avenue Traffic & Signal Lighting	20.205	FTIP# LAF7101	426,795	-
Total - Assistance Listing 20.205			<u>426,795</u>	<u>-</u>
<i>Passed through the State of California - Office of Traffic Safety:</i>				
Selective Traffic Enforcement Program	20.600	PT20057	140,109	-
Selective Traffic Enforcement Program	20.600	MC20003	128,312	-
Total - Assistance Listing 20.600			<u>268,421</u>	<u>-</u>
Total U.S. Department of Transportation			<u>767,658</u>	<u>-</u>
U.S. Department of Treasury				
<i>Direct Assistance:</i>				
Equitable Sharing Program (Federal Asset Forfeiture Program)	21.016	CA0192800	36,517	-
Total - Assistance Listing 21.016			<u>36,517</u>	<u>-</u>
COVID-19 CARES Act - Coronavirus Relief	21.019	Unknown	1,073,003	-
Total - Assistance Listing 21.019			<u>1,073,003</u>	<u>-</u>
Total U.S. Department of Treasury			<u>1,109,520</u>	<u>-</u>
Federal Emergency Management Agency (FEMA)				
<i>Direct Assistance:</i>				
Robert T. Stafford Disaster Relief and Emergency Assistance Act				
COVID-19 Reimbursable Emergency Protective Measures	97.036	Unknown	85,529	-
Total - Assistance Listing 97.036			<u>85,529</u>	<u>-</u>
Total Federal Emergency Management Agency			<u>85,529</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 15,552,137</u>	<u>\$ 123,418</u>

City of Hawthorne
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

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, 2021. 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, 2021, the City disbursed \$123,418 of federal awards to several subrecipients.

**City of Hawthorne
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2021**

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?	_____	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)?	_____ X _____	Yes	_____	No
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Identification of major programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program</u>
14.871	Housing Assistance Payment Program Section 8
14.218	CDBG-Entitlement Grants Cluster
21.019	Coronavirus Relief Fund

Dollar threshold used to distinguish between type A and type B programs:	_____ \$750,000 _____
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Auditee qualified as low-risk auditee?	_____	Yes	_____ X _____	No
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**City of Hawthorne
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2021**

Section II: Financial Statement Findings

No findings to be reported.

Section III: Federal Awards Findings and Questioned Costs

**2021-001 – Eligibility and Special Tests and Provisions
Noncompliance**

Federal Program

Housing Assistance Payment Program Section 8, Assistance Listing No. 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 charged 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 two instances where the reasonable rent test was not documented or performed prior to the rent increases.

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.

Identification as a Repeat Finding

This is 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.

Section III: Federal Awards Findings and Questioned Costs (continued)

**2021-002 – Cost Allocation Plan Documentation
*Noncompliance***

Federal Program

Community Development Block Grant – Assistance Listing No. 14.218

Criteria

Cost allocation plans for governments are required to have documentation in accordance with 2CFR Part 200, Appendix V, paragraph E.

Condition

The City's cost allocation plan is from 2009 and does not include the required elements from 2CFR Part 200, Appendix V, paragraph E.

Cause

The City has not implemented procedures to ensure that the cost allocation plan is in accordance with the applicable requirements.

Effect

Changes to the base of the cost allocation could be incorrect, causing allocations to the City's programs to be either over or understated.

Questioned Costs

No questioned costs.

Identification as a Repeat Finding

This is not a repeat finding.

Recommendation

We recommend the City update their plan to be in compliance with the current guidelines.

Views of Responsible Officials

See attached Corrective Action Plan.

**City of Hawthorne
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2021**

Financial Statement Findings

No prior year findings to report.

Federal Awards Findings and Questioned Costs

Finding 2020-001 *Noncompliance*

This is a repeat finding, as 2021-001.

Finding 2020-002 *Noncompliance*

Corrective action was appropriately taken by the City.



RESPONSE TO 2021 SINGLE AUDIT

2021-001 – Eligibility and Special Test and Provisions *Noncompliance*

Federal Program

Housing Assistance Payment Program Section 8, CFDA 14.871

Corrective Action Plan

Both files cited were from a historical period in 2019 and should have no bearing on the 2020-2021 audit as 2019 Rent Reasonableness Test corrective action would have been addressed in the 2019 Corrective Action Plan for the same finding in that years Single Audit . Staff cannot retrieve and file a 2019 Rent Reasonableness Test as the market changes rapidly. Neither file required a Rent Reasonable Test as there were no Interim or rent increase processed that would have triggered the need for one during the audit period of 2020-2021.

Staff will continue to conduct 100% Quality Control reviews of rent increase request as it has proven to reflect positive progress in this area. Additionally, as of February 14, 2022, the Department has hired a Housing Coordinator to assist with file assessment.

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2021-002 – Cost Allocation Plan Documentation *Noncompliance*

Federal Program

Community Development Block Grant – Assistance Listing No. 14.218

Corrective Action Plan

The City has retained the services of a consultant who is currently preparing an updated Cost Allocation Plan. It is expected to be completed by December 31, 2022. Once reviewed and approved by the Council, it will be implemented for fiscal year 2023-24.

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