

CITY OF HUNTINGTON BEACH, CALIFORNIA

Single Audit Reports

For the Fiscal Year Ended September 30, 2014

CITY OF HUNTINGTON BEACH, CALIFORNIA

**Single Audit Reports
For the Fiscal Year Ended September 30, 2014**

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INDEPENDENT AUDITORS' 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

The Honorable City Council
City of Huntington Beach, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Huntington Beach, California (City), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 31, 2015. Our report included an emphasis of matter, regarding the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, effective October 1, 2013. Additionally, our report included an emphasis of matter regarding the City's restatement of capital assets balances as of September 30, 2013.

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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs, as item 2014-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

Management's Response to Finding

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

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.



Laguna Hills, California
March 31, 2015



INDEPENDENT AUDITORS' 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 OMB CIRCULAR A-133

The Honorable City Council
City of Huntington Beach, California

Report on Compliance for Each Major Federal Program

We have audited the City of Huntington Beach, 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 September 30, 2014. 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.

Managements' Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of 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 each of its major federal programs for the year ended September 30, 2014.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2014-002. Our opinion on each major federal program is not modified with respect to this matter.

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 responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs, as item 2014-002, that we consider to be a significant deficiency.

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 31, 2015, which contained unmodified opinions on those financial statements. Our report contained an emphasis of matter regarding the City's adoption of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, effective October 1, 2013. Additionally, our report included an emphasis of matter regarding the City's restatement of capital assets balances as of September 30, 2013. 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 the 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 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.



Laguna Hills, California
May 28, 2015

CITY OF HUNTINGTON BEACH, CALIFORNIA
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2014

Federal Grantor Program Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Housing and Urban Development				
Direct Assistance:				
Community Development Block Grants/Entitlement Grants	14.218	B-10-MC-06-0506	\$ 83,277	\$ -
Community Development Block Grants/Entitlement Grants	14.218	B-13-MC-06-0506	749,523	111,167
Subtotal Community Development Block Grants			<u>832,800</u>	<u>111,167</u>
HOME Investment Partnerships Program	14.239	M-10-MC-06-0514	20,634	-
HOME Investment Partnerships Program	14.239	M-11-MC-06-0514	641,500	-
HOME Investment Partnerships Program	14.239	M-13-MC-06-0514	29,051	-
Subtotal HOME Investment Partnerships Program			<u>691,185</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development			<u>1,523,985</u>	<u>111,167</u>
U.S. Department of Justice				
Direct Assistance:				
Asset Forfeiture	16.922	CA0301000	237,659	-
Passed through California Office of Emergency Services:				
Violence Against Women Formula Grants	16.588	LE12056860	85,364	-
Violence Against Women Formula Grants	16.588	LE13066860	153,596	-
Subtotal Violence Against Women Formula Grants			<u>238,960</u>	<u>-</u>
Passed through County of Orange:				
JAG Program Cluster:				
Edward Byrne Memorial Justice Assistance Program	16.738	2012-DJ-BX-0057	7,419	-
Edward Byrne Memorial Justice Assistance Program	16.738	2013-DJ-BX-1065	28,952	-
Subtotal Passed through County of Orange			<u>36,371</u>	<u>-</u>
Passed through City of Anaheim				
Enhanced Collaborative Model to Combat Human Trafficking	16.320	2012-VT-BXK002	25,097	-
Total U.S. Department of Justice			<u>538,087</u>	<u>-</u>
U.S. Department of Transportation				
Passed through the California Department of Transportation:				
Highway Planning and Construction cluster:				
Bridge Preventative Maintenance	20.205	BPMPPL-5181 (169)	9,689	-
Bridge Preventative Maintenance	20.205	BPMPPL-5181 (171)	12,810	-
Bridge Preventative Maintenance	20.205	BPMPPL-5181 (172)	14,919	-
Bridge Rehabilitation	20.205	BRLO-5181 (174)	27,541	-
Bridge Rehabilitation	20.205	BRLO-5181 (175)	26,615	-
Safe Routes to School	20.205	SRTSL-5181 (173)	60	-
Highway Safety Improvement Program	20.205	HSIPL-5181 (178), HSIP5-12-006	6,154	-
Highway Safety Improvement Program	20.205	HSIPL-5181 (177), HSIP5-12-005	4,456	-
Subtotal Passed through the California Department of Transportation - Highway Planning and Construction Cluster			<u>102,244</u>	<u>-</u>
Passed through California Office of Traffic Safety:				
Selective Traffic Enforcement Program - 164AL	20.608	PT1482 - 164AL	203,813	-
Sobriety Checkpoint Grant Program	20.608	SC14184	94,512	-
Subtotal			<u>298,325</u>	<u>-</u>
Selective Traffic Enforcement Program - 402PT - Highway Safety Cluster	20.600	PT1482 - 402PT	33,904	-
Subtotal Passed through the California Office of Traffic Safety			<u>332,229</u>	<u>-</u>
Total U.S. Department of Transportation			<u>434,473</u>	<u>-</u>
U.S. Institute of Museum and Library Services:				
Passed through California State Library:				
Library Services and Technology Grant	45.310	LS-00-13-0005-13 (40-8281)	35,949	-
Total U.S. Institute of Museum and Library Services			<u>35,949</u>	<u>-</u>

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

CITY OF HUNTINGTON BEACH, CALIFORNIA
Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended September 30, 2014

Federal Grantor Program Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Homeland Security				
Direct Programs:				
Assistance to Firefighters Grant	97.044	EMW-2012-FP-00170	\$ 9,840	-
Passed through the County of Orange:				
Emergency Management Performance Grant	97.042	2013-0048; OES 059-00000	30,051	-
Emergency Management Performance Grant	97.042	EMW-2014-EP-00070	4,005	-
Subtotal Emergency Management Performance Grants (97.042)			<u>34,056</u>	-
Homeland Security Grant Program (MMS)	97.067	2011-7; OES 059-00000	276,962	-
Subtotal Passed through the County of Orange			<u>311,018</u>	-
Passed through the City of Santa Ana:				
Homeland Security Grant Program (FIRE)	97.067	2011-SS-0077	519	-
Homeland Security Grant Program (OCIAC)	97.067	2011-SS-0077	132,499	-
Homeland Security Grant Program (POLICE)	97.067	2013-SS-00110	1,381	-
Homeland Security Grant Program (FIRE)	97.067	2013-SS-00110	2,518	-
Homeland Security Grant Program (POLICE)	97.067	2013-SS-00110	41,925	-
Subtotal Passed through the City of Santa Ana			<u>178,842</u>	-
Passed through the City of Anaheim:				
Homeland Security Grant Program (POLICE)	97.067	2010-0085	2,061	-
Homeland Security Grant Program (FIRE)	97.067	2012-SS-00123	8,146	-
Subtotal Passed through the City of Anaheim			<u>10,207</u>	-
Subtotal Homeland Security Grant Programs (97.067)			<u>466,011</u>	-
Total U.S. Department of Homeland Security			<u>509,907</u>	-
Total Expenditures of Federal Awards			<u>\$ 3,042,401</u>	<u>\$ 111,167</u>

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

CITY OF HUNTINGTON BEACH, CALIFORNIA
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2014

NOTE 1 – BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the activity of all federal financial assistance programs of the City of Huntington Beach (City) and is presented on the modified accrual basis of accounting as described in Note 1 of the notes to the City’s basic financial statements. All financial assistance received directly from federal agencies, as well as federal financial assistance passed through other government agencies to the City is included in the accompanying Schedule. The information in the Schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audit of States, Local Governments and Non-Profits Organizations*.

NOTE 2 – RELATIONSHIP TO THE CITY’S BASIC FINANCIAL STATEMENTS

Amounts reported in the accompanying Schedule agree to amounts reported within the City’s basic financial statements.

NOTE 3 – RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying Schedule agree with amounts reported in federal financial reports.

NOTE 4 – FEDERAL FUNDED LOANS

The City administers loans, primarily deferred loans, made from funds provided by the following federal programs:

Federal Programs	CFDA No.	Loans Expended During the Year Ended September 30, 2014	Loans Outstanding as of September 30, 2014	Loans Outstanding as of September 30, 2014 with Continuing Compliance Requirements
Community Development				
Block Grants/Entitlement Grants	14.218	\$ 23,745	\$ 3,083,120	\$ -
HOME Investment Partnerships Program	14.239	641,500	11,758,064	11,758,064
Neighborhood Stabilization Program - HERA	14.228	-	441,800	-

CITY OF HUNTINGTON BEACH, CALIFORNIA
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended September 30, 2014

NOTE 5 – OFFICE OF EMERGENCY SERVICES

The following represents federal expenditures for the grant period, which may extend over several fiscal years, for programs from the Department of Justice passed through the Office of Emergency Services:

Violence Against Women Formula Grant LE12056860 from October 1, 2013 – September 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Personnel costs	\$ 53,698	\$ 16,522	\$ 37,176
Operating expenses/Equipment	71,106	68,842	2,264
Total	<u>\$ 124,804</u>	<u>\$ 85,364</u>	<u>\$ 39,440</u>

Violence Against Women Formula Grant LE13066860 from October 1, 2013 – September 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Personnel costs	\$ 62,569	\$ 55,634	\$ 6,935
Operating expenses/Equipment	130,697	97,962	32,735
Total	<u>\$ 193,266</u>	<u>\$ 153,596</u>	<u>\$ 39,670</u>

CITY OF HUNTINGTON BEACH, CALIFORNIA
Schedules of Findings and Questioned Costs
For the Fiscal Year Ended September 30, 2014

I. Summary of Auditors' Results

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major federal programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Type of auditors' report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	Yes
Identification of major federal programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.239	HOME Investment Partnerships Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	Yes

CITY OF HUNTINGTON BEACH, CALIFORNIA
Schedules of Findings and Questioned Costs
For the Fiscal Year Ended September 30, 2014

II. Financial Statement Findings

Finding Number 2014-001

Financial Reporting

Criteria:

Management is responsible for a system of internal controls over financial reporting, which should be designed to initiate, authorize, record, process, and report financial data accurately, timely, and in accordance with U.S. generally accepted accounting principles.

Condition:

During the audit, the City identified a prior period adjustment to properly state capital assets in the Statement of Net Position. Further, adjustments were noted during the audit, and corrected by the City, to the general ledger, financial statements, and related disclosures.

Context:

The condition was noted during our procedures over the financial statements, as well as testing over specific financial statement captions, including capital assets, accounts receivable, deferred inflows of resources, fund balance, and net position, and testing over the pension plan note disclosures.

Cause:

The City's procedures over the closing and financial reporting process did not consistently provide for the timely identification and correction of misstatements, or proper disclosures, in the financial statements.

Effect:

Certain adjustments were required to the financial statements including an adjustment noted by the City to restate beginning net position to correct a capital assets overstatement.

Recommendation

We recommend that the City review their closing and financial reporting process to ensure that the financial statements are reviewed for accuracy and completeness, and proper disclosures are presented in accordance with generally accepted accounting principles, on a timely basis.

Views of Responsible Officials and Planned Corrective Actions:

The City will review its current closing and financial reporting processes and implement an earlier Citywide capital assets review.

CITY OF HUNTINGTON BEACH, CALIFORNIA
Schedules of Findings and Questioned Costs
For the Fiscal Year Ended September 30, 2014

III. Federal Award Findings and Questioned Costs

Finding Number 2014-002

Program: HOME Investment Partnerships Program (HOME)

CFDA No.: 14.239

Federal Grantor: U.S. Department of Housing and Urban Development (HUD)

Passed-through: N/A

Award No. and Year: M-10-MC-06-0514 (2010), M-11-MC-06-0514 (2011), and M-13-MC-06-0514 (2013)

Compliance Requirements: Special Tests and Provisions – Housing Quality Standards

Criteria:

The *March 2014 OMB Circular A-133 Compliance Supplement* states that for the HOME program, during the period of affordability for HOME assisted rental housing, the City must perform on-site inspections to determine compliance with property standards and verify the information submitted by the owners no less than every two years for projects with 5 to 25 units.

Condition:

Significant Deficiency, Instance of Non-Compliance - It was noted for one building, with 10 HOME-funded units, the City did not perform an on-site inspection during FY 2013-14, as required. The last on-site inspection was completed August 23, 2011. It was also noted for one building, with 6 HOME-funded units, the City asserts on-site inspections were completed, but documentation was not available during the audit. The last on-site inspection, with supporting documentation, was completed on August 25, 2011.

Questioned Costs:

None noted.

Context:

The condition noted above was identified during our procedures related to the special tests and provisions for Housing Quality Standards applicable to the HOME program.

Effect:

The City has not completed the required on-site inspections, or maintained available supporting documentation of those inspections, to ensure compliance with property standards.

Cause:

The City's procedures did not ensure the required on-site inspections were completed, with supporting documentation.

Recommendation:

We recommend that the City strengthen its policies and internal control procedures to ensure that the on-site inspections are completed on a timely basis in accordance with HOME requirements, and documentation of those on-site inspections is maintained and available during the audit.

CITY OF HUNTINGTON BEACH, CALIFORNIA
Schedules of Findings and Questioned Costs
For the Fiscal Year Ended September 30, 2014

III. Federal Award Findings and Questioned Costs

View of Responsible Official and Planned Corrective Action:

The City oversees over 45 housing projects, ranging from two units to over 200 units. This finding relates to only two of those projects. In one instance, one project was properly inspected in 2011 and 2015. The other location was inspected in 2011, with a new inspection in progress as noted below. This particular project is a battered woman's shelter and the City's Police Department reviews the site each time prior to placing women and families in the shelter, to ensure that it is properly maintained and meets health and safety standards. However, documentation of the Police Department's site visits were not developed/maintained. The City has immediately commenced with the formal physical on-site inspection, to be completed by our consultant.

To enhance procedures going forward, we have a three year contract with an on-site physical inspection firm. We have also created an enhanced database to ensure timely inspections, as has been done with the other 43 housing projects.

CITY OF HUNTINGTON BEACH, CALIFORNIA
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended September 30, 2014

Summarized below is the current status of all audit findings reported in the prior year audit's schedule of audit findings and questioned costs.

Financial Statement Findings

Finding No.	Area	Status of Corrective Action
2013-001	Completeness of Schedule of Expenditures of Federal Awards	Implemented

Federal Awards Findings

None reported.