

CITY OF HUNTINGTON BEACH
Single Audit Reports
For the Year Ended September 30, 2012

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**Independent Auditor’s 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***

To the Honorable City Council
of the City of Huntington Beach, California

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 of Huntington Beach, California (City), as of and for the year ended September 30, 2012, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated April 30, 2013. Our report included an emphasis of a matter regarding the dissolution of redevelopment agencies as required by the California State Legislature, as well as an emphasis of a matter regarding the City’s disagreements with the conclusions rendered by the California Department of Finance noted in the Due Diligence Review for the Low and Moderate Income Housing Fund and on certain obligations listed on the Recognized Obligations Payment Schedule. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City’s internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs in item 2012-01, that we consider to be a significant deficiency in internal control over financial reporting. 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.

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 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*.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the City Council, management and others within the City, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Macias Fini & O'Connell LLP

Newport Beach, California
April 30, 2013

**Independent Auditor’s Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on
Internal Control Over Compliance and on the Schedule of Expenditures
of Federal Awards in Accordance with OMB Circular A-133**

To the Honorable City Council
of the City of Huntington Beach, California

Compliance

We have audited the City of Huntington Beach’s, California (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, 2012. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City’s management. Our responsibility is to express an opinion on the City’s compliance based on our audit.

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. Our audit does not provide a legal determination of the City’s compliance with those requirements.

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 September 30, 2012.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City’s internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

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, 2012, and have issued our report thereon dated April 30, 2013, which contained an unqualified opinion on those financial statements. Our report included an emphasis of a matter regarding the dissolution of redevelopment agencies as required by the California State Legislature, as well as an emphasis of a matter regarding the City's disagreements with the conclusions rendered by the California Department of Finance noted in the Due Diligence Review for the Low and Moderate Income Housing Fund and on certain obligations listed on the Recognized Obligations Payment Schedule. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to April 30, 2013. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

This report is intended solely for the information and use of the City Council, management and others within the City, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Macias Jini & O'Connell LLP

Newport Beach, California
June 28, 2013

CITY OF HUNTINGTON BEACH
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2012

Federal Grantor/ Pass-through Grantor Program Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Disbursements to Subrecipients
U.S. Department of Housing and Urban Development:				
Direct Programs:				
Community Development Block Grants/Entitlement Grants	14.218	B-06-MC-06-0506	\$ 2,007	\$ -
Community Development Block Grants/Entitlement Grants	14.218	B-09-MC-06-0506	27,160	-
Community Development Block Grants/Entitlement Grants	14.218	B-10-MC-06-0506	71,817	-
Community Development Block Grants/Entitlement Grants	14.218	B-11-MC-06-0506	915,987	161,974
Total Community Development Block Grants/Entitlement Grants			1,016,971	161,974
HOME Investment Partnerships Program	14.239	M-08-MC-06-0514	16,155	-
HOME Investment Partnerships Program	14.239	M-09-MC-06-0514	19,288	-
HOME Investment Partnerships Program	14.239	M-10-MC-06-0514	50,000	50,000
HOME Investment Partnerships Program	14.239	M-11-MC-06-0514	69,390	-
Total HOME Investment Partnerships Program			154,833	50,000
ARRA - Homelessness Prevention and Rapid Re-Housing Program	14.257	S-09-MY-06-0506	116,880	37,875
Total U.S. Department of Housing and Urban Development			1,288,684	249,849
U.S. Department of Justice:				
Direct Program:				
Asset Forfeiture	16.922	CA0301000	54,340	-
Passed-through California Office of Emergency Services:				
Violence Against Women Formula Grants	16.588	LE10036860	62,149	-
Violence Against Women Formula Grants	16.588	LE11046860	105,907	-
Total Violence Against Women Formula Grants			168,056	-
Passed-through County of Orange:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010-DJ-BX-0324	12,277	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-DJ-BX-2532	31,405	-
Total Edward Byrne Memorial Justice Assistance Grant Program			43,682	-
Total U.S. Department of Justice			266,078	-
U.S. Department of Transportation:				
Passed-through California Department of Transportation:				
Highway Planning and Construction	20.205	STPLH-5181 (139)	59,921	-
Highway Planning and Construction	20.205	STPLH-5181 (162)	72,000	-
Highway Planning and Construction	20.205	STPLH-5181 (163)	64,951	-
Highway Planning and Construction	20.205	STPL-5181 (165)	9,609	-
Highway Planning and Construction	20.205	BPMP-5181 (169)	115,797	-
Highway Planning and Construction	20.205	BPMP-5181 (171)	78,598	-
Highway Planning and Construction	20.205	BPMP-5181 (172)	77,020	-
Highway Planning and Construction	20.205	SRTSL-5181(173)	1,298	-
Total Highway Planning and Construction			479,194	-

(Continued)

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

CITY OF HUNTINGTON BEACH
Schedule of Expenditures of Federal Awards (Continued)
For the year ended September 30, 2012

Federal Grantor/ Pass-through Grantor Program Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Disbursements to Subrecipients
U.S. Department of Transportation (Continued):				
Passed-through California Office of Traffic Safety:				
State and Community Highway Safety	20.600	20352	137,359	-
Passed-through City of Anaheim:				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	20656	1,595	-
Total U.S. Department of Transportation			<u>618,148</u>	<u>-</u>
U.S. Department of Energy:				
Direct Program:				
ARRA - Energy Efficiency and Conservation Block Grant Program	81.128	DE-SC0003191	783,531	-
Department of Homeland Security:				
Direct Programs:				
Assistance to Firefighters Grant	97.044	EMW-2010-FP-00976	5,520	-
Passed-through County of Orange:				
Hazard Mitigation Grant	97.039	1810-3-9P	26,142	-
Passed-through County of Orange:				
Emergency Management Performance Grant	97.042	2011-0048;OES 059-00000	43,199	-
Passed-through City of Anaheim:				
Homeland Security Grant Program	97.067	2008-0006	39,436	-
Homeland Security Grant Program	97.067	2010-0085	139,259	-
Homeland Security Grant Program	97.067	2010-0085	28,944	-
Homeland Security Grant Program	97.067	2010-0085	48,992	-
Passed-through City of Santa Ana				
Homeland Security Grant Program	97.067	2009-0019	5,607	-
Homeland Security Grant Program	97.067	2009-0019	2,148	-
Homeland Security Grant Program	97.067	2011-SS-0077	2,320	-
Homeland Security Grant Program	97.067	2011-SS-0077	119,688	-
Passed-through County of Orange:				
Homeland Security Grant Program	97.067	2009-7; OES 059-00000	256,456	-
Homeland Security Grant Program	97.067	2010-7; OES 059-00000	8,558	-
Total Homeland Security Grant Program			651,408	-
Total U.S. Department of Homeland Security			<u>726,269</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 3,682,710</u>	<u>\$ 249,849</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

CITY OF HUNTINGTON BEACH
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2012

1. Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the activity of all federal financial assistance programs of the City of Huntington Beach (the 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, *Audits of States, Local Governments and Non-Profit Organizations*.

2. Relationship to City's Basic Financial Statements:

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

3. Relationship to Federal Financial Reports:

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

4. Federally 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, 2012	Loans Outstanding as of September 30, 2012	Loans Outstanding as of September 30, 2012 with Continuing Compliance Requirements
Community Development				
Block Grants/Entitlement Grants	14.218	\$ 90,176	\$ 3,541,427	\$ -
HOME Investment Partnerships Program	14.239	50,000	11,080,396	11,080,396
Neighborhood Stabilization Program - HERA	14.228	-	420,259	-

CITY OF HUNTINGTON BEACH
Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended September 30, 2012

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 LE10036860 from October 1, 2011 - September 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Personnel costs	\$ 14,036	\$ 14,036	\$ -
Operating expenses	48,113	48,113	-
Total	<u>\$ 62,149</u>	<u>\$ 62,149</u>	<u>\$ -</u>

Violence Against Women Formula Grant LE11046860 from October 1, 2012 - September 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Personnel costs	\$ 59,659	\$ 40,459	\$ 19,200
Operating expenses	119,319	65,448	53,871
Total	<u>\$ 178,978</u>	<u>\$ 105,907</u>	<u>\$ 73,071</u>

CITY OF HUNTINGTON BEACH
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2012

Section I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	None

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.239	HOME Investment Partnerships Program
14.257	ARRA - Homelessness Prevention and Rapid Re-Housing Program
20.205	Highway Planning and Construction
81.128	ARRA - Energy Efficiency and Conservation Block Grant Program
97.067	Homeland Security Grant Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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Auditee qualified as a low-risk auditee?	Yes
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CITY OF HUNTINGTON BEACH
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2012

Section II – Financial Statement Findings

Finding Number 2012-01: Completeness of Schedule of Expenditures of Federal Awards
(Significant Deficiency)

Criteria:

In accordance with OMB Circular A-133, §.310(b) *Schedule of expenditures of Federal Awards*, the auditee shall prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. Further, under §.205 *Basis for determining Federal awards expended*, the determination of when an award is expended should be based on when the activity related to the award occurs.

Condition:

During our review over the completeness and accuracy of the Schedule of Expenditures of Federal Awards (SEFA) for the year ended September 30, 2012, we noted that the City included prior year expenditures related to the Highway Planning and Construction and Homeland Security Grants that were not previously reported in the prior year SEFA.

Context:

2 out of the 14 federal grants reported on the SEFA as of September 30, 2012 include prior year expenditures in the cumulative amount of \$199,368. The following is a summary by program:

Highway Planning and Construction

\$196,872 out of the total current year Highway Planning and Construction Grant program expenditures of \$479,194 pertains to the year ended September 30, 2011.

Homeland Security Grant Program

\$2,496 out of the total current year Homeland Security Grant Program expenditures of \$651,408 pertains to the year ended September 30, 2011.

Cause and Effect:

While preparing the SEFA in the prior year, management did not consider certain funds within their accounting system pertaining to the Highway Planning and Construction and Homeland Security Grant expenditures. As a result, the expenditures reported in the prior year SEFA were understated.

Questioned Costs:

Not applicable.

CITY OF HUNTINGTON BEACH
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2012

Recommendation:

We recommend that the City identify all funds within their accounting system that pertain to federal grant expenditures when preparing the SEFA to ensure the integrity and completeness of the data included. To verify completeness, we recommend that management reconcile their SEFA to financial expenditure reports submitted to their respective grantors on an annual basis.

Views of Responsible Officials and Planned Corrective Actions:

The City's Finance Department will work with the grant coordinating departments to ensure that the reconciliation of grant revenues and expenditures is completed at year-end so that federal expenditures are recognized in the proper fiscal year.

CITY OF HUNTINGTON BEACH
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2012

Section III – Federal Award Findings and Questioned Costs

None.

CITY OF HUNTINGTON BEACH
Summary Schedule of Prior Year Audit Findings
For the Year Ended September 30, 2012

Finding Number 2011-01 Completeness of Schedule of Expenditures of Federal Awards and Accounts Payable

Comment:

During our review over the completeness and accuracy of the Schedule of Expenditures of Federal Awards (SEFA) for the year ended September 30, 2011, we noted that the City included prior year Homeland Security Grant Program expenditures, that were not previously reported in prior years SEFA. A summary of prior year expenditures by fiscal year that are included in the current year SEFA are as follows:

- \$46,876 in expenditures incurred during fiscal year 2009
- \$7,501 in expenditures incurred during fiscal year 2010

We recommend that the City identify all funds within their accounting system that pertain to federal grant expenditures when preparing the SEFA to ensure the integrity and completeness of the data included thereon. To verify completeness, we recommend that management reconcile their SEFA to financial expenditure reporting submitted to their respective grantors on an annual basis.

Corrective Action Taken:

Partially implemented. Management has implemented additional procedures to facilitate communications with each of the departments to help ensure that grant expenditures are captured in the correct fiscal year. However, there were still errors undetected in the compilation of the Schedule of Expenditures of Federal Awards. See current year finding 2012-01 under Section II Financial Statement Findings for further details.

Finding Number 2011-02 Timely Submission of Quarterly Reports for ARRA – Homelessness Prevention and Rapid Re-Housing

Comment:

During our audit, we noted that the City submitted the third quarter report beyond the 10 days allowed. The third quarter report (July 1, 2011 through September 30, 2011) was submitted on October 25, 2011, which is 25 days after quarter-end. We recommend that the City cross train professional staff in the preparation of all required federal reports pertaining to the program to ensure the timely submission of required reports.

Corrective Action Taken:

This recommendation has been implemented.

Finding Number 2011-03 Timely Submission of Quarterly Report for ARRA – Energy Efficiency and Conservation Block

CITY OF HUNTINGTON BEACH
Summary Schedule of Prior Year Audit Findings
For the Year Ended September 30, 2012

Comment:

During our audit, we noted that the City submitted the third quarter report beyond the 10 days allowed. The third quarter report (July 1, 2011 through September 30, 2011) was submitted on October 25, 2011, which is 25 days after quarter-end. We recommend that the City cross train professional staff in the preparation of all required federal reports pertaining to the program to ensure the timely submission of required reports.

Corrective Action Taken:

Partially implemented. During our audit, we noted that the City submitted to Performance and Accountability for Grants in Energy (PAGE system) the fourth quarter of 2011 SF-425 report (October 1, 2011 through December 31, 2011) on February 2, 2012 which was 3 days beyond the maximum 30 days allowed from quarter-end. This was due to the fact that the City's third quarter of 2011 report (July 1, 2011 through September 30, 2011) was not approved by the grantor until January 24, 2012. As subsequent quarterly reports cannot be started or submitted in the system until the previous quarter has been approved, the City did not have sufficient time to compile the fourth quarter 2011 report prior to the next deadline. We noted the City has timely submitted subsequent quarterly reports (January 1, 2012 to March 31, 2012, April 1, 2012 to June 30, 2012 and July 1, 2012 to September 30, 2012).