

**CITY OF HUNTINGTON BEACH**  
**Huntington Beach, California**

**Single Audit Report on Federal Awards**

Year ended September 30, 2016

**CITY OF HUNTINGTON BEACH**

Single Audit Report on Federal Awards

Year ended September 30, 2016

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Honorable Mayor and City Council  
City of Huntington Beach  
Huntington Beach, California

**Report on Internal Control Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards***

**Independent Auditors' Report**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Huntington Beach, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Huntington Beach's basic financial statements, and have issued our report thereon dated March 30, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Huntington Beach'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 of Huntington Beach's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Huntington Beach'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control identified as item 2016-001 described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Huntington Beach'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.

### **City of Huntington Beach's Response to Findings**

The City of Huntington Beach's responses to the findings identified in our audit is described in the accompanying schedule of audit findings and questioned costs. The City of Huntington Beach's response were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **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.



Irvine, California  
March 30, 2017

Honorable Mayor and City Council  
City of Huntington Beach  
Huntington Beach, California

**Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule Of Expenditures of Federal Awards Required by Uniform Guidance**

**Independent Auditors' Report**

**Report on Compliance for Each Major Federal Program**

We have audited the City of Huntington Beach's compliance with the types of compliance requirements described in the *OMB Circular Compliance Supplement* that could have a direct and material effect on each of the City of Huntington Beach's major federal programs for the year ended September 30, 2016. The City of Huntington Beach's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the City of Huntington Beach'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 requirement of Title 2 U.S. Code of Federal Regulations 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 of Huntington Beach'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 of Huntington Beach's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the City of Huntington Beach 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, 2016.

### **Report on Internal Control Over Compliance**

Management of the City of Huntington Beach 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 of Huntington Beach'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 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 the City of Huntington Beach'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 have not been identified.

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

**Report on Schedule of Expenditures of Federal Awards Required by 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 of Huntington Beach as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Huntington Beach's basic financial statements. We issued our report thereon dated March 30, 2017 which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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 expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in cursive script that reads "Davis Fan" followed by a stylized flourish.

Irvine, California  
June 28, 2017 except for our report on the Schedule of Expenditures of Federal Awards, for which the date is March 30, 2017

**CITY OF HUNTINGTON BEACH**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended September 30, 2016

Federal Grantor Program Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Current Year Federal Expenditures	Disbursements to Subrecipients
<b>U.S. Department of Housing and Urban Development</b>				
Direct Programs:				
Community Development Block Grants/ Entitlement Grants - Non ARRA	14.218	B-14-MC-06-0506	\$ 300,471	-
	14.218	B-15-MC-06-0506	770,649	96,000
Subtotal Community Development Block Grants			<u>1,071,120</u>	<u>96,000</u>
HOME Investment Partnerships Program	14.239	M-10-MC-06-0514	261,054	-
HOME Investment Partnerships Program	14.239	M-11-MC-06-0514	73,487	-
HOME Investment Partnerships Program	14.239	M-14-MC-06-0514	18,387	-
HOME Investment Partnerships Program	14.239	M-15-MC-06-0514	117,864	-
Subtotal HOME Investment Partnerships Program			<u>470,792</u>	<u>-</u>
Economic Development Initiative - Special Project Grants (LOCCS)	14.251	B-09-SP-CA-0130	142,500	-
<b>Total U.S. Department of Housing and Urban Development</b>			<u>1,684,412</u>	<u>96,000</u>
<b>U.S. Department of Justice</b>				
Direct Programs:				
Asset Forfeiture	16.922	CA0301000	139,554	-
Organized Crime Drug Enforcement Task Force -State and Local Overtime	16.111	R1-14-0013, SW-CAC-1275 (15/16)	9,993	-
Passed through California Office of Emergency Services:				
Violence Against Women Formula Grants	16.588	LE14076860	41,296	-
Violence Against Women Formula Grants	16.588	LE15086860	154,730	-
Subtotal Violence Against Women Formula Grants			<u>196,026</u>	<u>-</u>
Passed through City of Anaheim:				
Enhanced Collaborative Model to Combat Human Trafficking	16.320	2012-VT-BXK002	967	-
<b>Total U.S. Department of Justice</b>			<u>346,540</u>	<u>-</u>
<b>U.S. Environmental Protection Agency</b>				
Passed through Ecology Action of Santa Cruz, Inc.				
Pollution Prevention - California Green Business Program	66.708	G15-EA-001, 99T20001	19,383	-
<b>Total U.S. Environmental Protection Agency</b>			<u>19,383</u>	<u>-</u>
<b>U.S. Department of Health and Human Services</b>				
Passed through Community Service Programs, Inc.				
Strategic Prevention Framework State Incentive Grant (SPF SIG)	93.243	13-90210	20,311	-
<b>Total U.S. Department of Health and Human Services</b>			<u>20,311</u>	<u>-</u>
<b>U.S. Department of Transportation</b>				
Passed through California Department of Transportation:				
Highway Planning and Construction - Non ARRA	20.205	STPL-5181 (165)	1,625,535	-
Bridge Preventive Maintenance - Non ARRA	20.205	BP MPL-5181 (169)	579,410	-
Bridge Preventive Maintenance - Non ARRA	20.205	BP MPL-5181 (171)	24,362	-
Bridge Preventive Maintenance - Non ARRA	20.205	BP MPL-5181 (172)	32,980	-
Bridge Rehabilitation - Non ARRA	20.205	BRLO-5181 (174)	111,869	-
Bridge Rehabilitation - Non ARRA	20.205	BRLO-5181 (175)	108,423	-
Highway Safety Improvement Program	20.205	HSIPL-5181 (178), HSIP5-12-006	8,616	-
Highway Safety Improvement Program	20.205	HSIPL-5181 (177), HSIP5-12-005	418,826	-
Highway Safety Improvement Program	20.205	HSIPL-5181(180), HSIP6-12-004	2,583	-
Highway Safety Improvement Program	20.205	HSIPL-5181(183), HSIP6-12-005	2,344	-
Highway Safety Improvement Program	20.205	HSIPL-5181(184), HSIP6-12-006	1,137	-
Highway Safety Improvement Program	20.205	HSIPL-5181(185), HSIP6-12-007	2,957	-
Highway Safety Improvement Program	20.205	HSIPL-5181(186), HSIP6-12-008	1,331	-
Highway Safety Improvement Program	20.205	HSIPL-5181(181), HSIP6-12-002	2,967	-
Highway Safety Improvement Program	20.205	HSIPL-5181(182), HSIP6-12-003	6,324	-
Subtotal Passed through the California Department of Transportation			<u>2,929,664</u>	<u>-</u>
Passed through California Office of Traffic Safety:				
State and Community Highway Safety	20.600	PT1649 (164AL, 402PT)	448,702	-
Sobriety Checkpoint Grant Program	20.608	15-OTS13 (1614AL)	24,570	-
Subtotal Passed through the California Office of Traffic Safety			<u>473,272</u>	<u>-</u>
<b>Total U.S. Department of Transportation</b>			<u>3,402,936</u>	<u>-</u>

(continued)

**CITY OF HUNTINGTON BEACH**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**  
For the year ended September 30, 2016

Federal Grantor Program Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Current Year Federal Expenditures	Disbursements to Subrecipients
<b>Institute of Museum and Library Services:</b>				
Passed through California State Library: Library Services and Technology Grant (Grants to States Formula Grants)	45.310	LS-00-15-0005-15 (40-8515)	\$ 4,583	-
<b>Total Institute of Museum and Library Services</b>			<u>4,583</u>	<u>-</u>
<b>Department of Homeland Security</b>				
Passed through California Office of Emergency Services: Hazard Mitigation Grant Program	97.039	1911-11-11R	55,031	-
Passed through County of Orange: Emergency Management Performance Grant	97.042	2015 EMPG Local Allocation	24,599	-
Passed through City of Santa Ana: Homeland Security Grant Program ( <b>POLICE</b> )	97.067	2015-00078	2,403	-
Passed through City of Anaheim: Homeland Security Grant Program ( <b>POLICE</b> )	97.067	2014-SS-00093	52,222	-
Subtotal Homeland Security Grant Program			<u>54,625</u>	<u>-</u>
<b>Total Department of Homeland Security</b>			<u>134,255</u>	<u>-</u>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 5,612,420</b>	<b>\$ 96,000</b>

**CITY OF HUNTINGTON BEACH**

Notes to the Schedule of Expenditures of Federal Awards

Year ended September 30, 2016

(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 and the audit requirement of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

(2) 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, 2016	Loans Outstanding as of September 30, 2016
Community Development Block Grants/Entitlement Grants	14.218	\$ -	\$ 2,782,706
HOME Investment Partnerships Program	14.239	293,500	14,048,533
Neighborhood Stabilization Program - HERA	14.228	-	465,922

**CITY OF HUNTINGTON BEACH**

Notes to the Schedule of Expenditures of Federal Awards

Year ended September 30, 2016

(3) 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 LE13066860 from October 1, 2015 – September 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Personnel costs	\$ 11,999	\$ 11,999	\$ -
Operating Expenses/Equipment	34,047	29,297	4,750
Total	<u>\$ 46,046</u>	<u>\$ 41,296</u>	<u>\$ 4,750</u>

Violence Against Women Formula Grant LE14076860 from October 1, 2015 – September 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Personnel costs	\$ 61,389	\$ 55,272	\$ 6,117
Operating Expenses/Equipment	127,586	99,458	28,128
Total	<u>\$ 188,975</u>	<u>\$ 154,730</u>	<u>\$ 34,245</u>

**CITY OF HUNTINGTON BEACH**

Schedule of Findings and Questioned Costs

Year ended September 30, 2016

**Section I - Summary of Auditors' Results**

**Financial Statements**

- |   |               |
|---|---------------|
| 1. Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified    |
| 2. Internal control over financial reporting:   |               |
| a. Material weakness(es) identified?  | None Reported |
| b. Significant deficiency(ies) identified?  | 2016-001      |
| 3. Noncompliance material to the financial statements noted?  | None Reported |

**Federal Awards**

- |  |               |
|--|---------------|
| 1. Internal control over major programs:   |               |
| a. Material weakness(es) identified?   | None Reported |
| b. Significant deficiency(ies) identified?   | None Reported |
| 2. Type of auditors' report issued on compliance for major programs:                                   | Unmodified    |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)? | None Reported |

4. Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grants/Entitlement Grants
14.239	HOME Investment Partnerships Program

- |   |           |
|---|-----------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$750,000 |
| 6. Auditee qualified as a low-risk auditee?                                 | Yes       |

# CITY OF HUNTINGTON BEACH

## Schedule of Findings and Questioned Costs

Year ended September 30, 2016

### Section II - Financial Statement Findings

#### 2016-001 Adjustment Detected by the Audit Process

**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:**

Material adjustments were noted by the audit, and corrected by the City, to the general ledger and financial statements.

- An adjustment to remove certain loans receivable that had been paid off
- An adjustment to remove assets and liabilities associated with developer contributed land

**Context:**

The condition was noted during our testing of loans receivables and asset and liability accounts associated with developer contributed land.

**Cause:**

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

**Effect:**

Certain adjustments were required to the financial statements.

**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.

**View of Responsible Officials:**

The City will review its current closing and financial reporting processes and implement changes as needed to ensure that any potential misstatements are found and corrected in a timely manner.

**CITY OF HUNTINGTON BEACH**

Schedule of Findings and Questioned Costs

Year ended September 30, 2016

**Section III - Federal Award Findings and Questioned Costs**

There are no federal award findings and questioned costs.

**CITY OF HUNTINGTON BEACH**

Schedule of Findings and Questioned Costs

Year ended September 30, 2016

**Section IV – Summary of Prior Audit Findings and Current Status**

2015-001 Adjustments Detected by Audit Process

This item has been repeated as finding 2016-001

2015-002 Preparation and Reporting of the Schedule of Expenditures of Federal Awards

This item has been resolved

2015-003 On-site Inspections

This item has been resolved

2015-004 Program Income

This item has been resolved