

CITY OF LA HABRA
Single Audit Report
For the Year Ended June 30, 2011

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To the Honorable City Council
of the City of La Habra, California

**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***

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 La Habra, California (City), as of and for the year ended June 30, 2011, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated May 24, 2012. Our report included an explanatory paragraph indicating that the City adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and an emphasis of a matter regarding the dissolution of redevelopment agencies in the State of California pursuant to Assembly Bill X1 26. 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be 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.

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*.

We noted certain matters that we reported to management of the City in a separate letter dated May 24, 2012.

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
May 24, 2012

To the Honorable City Council
of the City of La Habra, California

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

Compliance

We have audited the City of La Habra’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 June 30, 2011. 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.

As described in items 2011-01 and 2011-02 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding reporting that is applicable to its Community Development Block Grants/Entitlement Grants and Community Development Block Grant ARRA Entitlement Grants (CDBG–R) programs (CDBG Cluster). Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2011. The result of our auditing procedures also disclosed another instance of noncompliance with those compliance requirements which is required to be reported in accordance with OMB Circular A-133, and which is described in the accompanying schedule of findings and questioned costs as item 2011-03.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-01 and 2011-02 to be material weaknesses.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-03 to be a significant deficiency.

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 June 30, 2011, and have issued our report thereon dated May 24, 2012, which contained an unqualified opinion on those financial statements. Our report included an explanatory paragraph indicating that the City adopted the provisions of Governmental Accounting Standard Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and an emphasis of a matter regarding the dissolution of redevelopment agencies in the State of California pursuant to Assembly Bill X1 26. Our audit was performed for the purpose of forming our opinion on the financial statements as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and related 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.

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

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

May 29, 2012, except for the Schedule of Expenditures of Federal Awards, to which the date is

May 24, 2012

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CITY OF LA HABRA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Federal Grantor/ Pass-through Grantor Program Title	Catalog of Federal Domestic Assistance Number	Program Identification Number		
U.S. Department of Agriculture				
Passed through State of California Department of Education:				
Child and Adult Care Food Program	10.558	30-1454-1J	\$ 257,577	\$ -
Child and Adult Care Food Program	10.558	30-1454-7F	1,506,583	1,275,085
Total Child Care and Adult Care Food Program Grants			<u>1,764,160</u>	<u>1,275,085</u>
Total U.S. Department of Agriculture			<u>1,764,160</u>	<u>1,275,085</u>
U.S. Department of Housing and Urban Development				
Direct programs:				
Community Development Block Grants/Entitlement Grants	14.218	B-03-MC-06-0582	16,235	-
Community Development Block Grants/Entitlement Grants	14.218	B-08-MC-06-0582	10,410	-
Community Development Block Grants/Entitlement Grants	14.218	B-09-MC-06-0582	172,358	-
Community Development Block Grants/Entitlement Grants	14.218	B-10-MC-06-0582	682,666	140,408
Total Community Development Block Grant/Entitlement Grants - non-ARRA			<u>881,669</u>	<u>140,408</u>
Community Development Block Grant ARRA Entitlement Grants (CDBG-R)(Recovery Act Funded)	14.253	B-09-MY-06-0582	152,088	-
Total Community Development Block Grant/Entitlement Grant Cluster			<u>1,033,757</u>	<u>140,408</u>
Total U.S. Department of Housing and Urban Development			<u>1,033,757</u>	<u>140,408</u>
U.S. Department of Justice				
Direct Programs:				
Bulletproof Vest Partnership Program	16.607	2004BUBX04023483	11,105	-
Public Safety Partnership and Community Policing Program	16.710	2008CKWX0169	1,486	-
State and Local Overtime and Authorized Expense/Strategic Initiative Program Administered through Southwest Region OCDETF Regional Coordinator Group of the Drug Enforcement Administration	16.UNKNOWN	SW-CAC-1070	754	-
Passed through County of Orange:				
Edward Byrne Memorial Justice Assistance Grant - 2009	16.738	2009-DJ-BX-0033	2,384	-
Edward Byrne Memorial Justice Assistance Grant - 2010	16.738	DC-10-21-0300	84,000	-
Total Edward Byrne Memorial Justice Assistance Grant			<u>86,384</u>	<u>-</u>
Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program / Grants To Units Of Local Government - ARRA	16.804	2009-SB-B9-0271	17,870	-
Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program / Grants To Units Of Local Government - ARRA	16.804	ZA-09-01-0300	28,572	-
Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program / Grants To Units Of Local Government - ARRA (Calmmet)	16.804	ZM-09-01-0300	229	-
Total Edward Byrne Memorial Justice Assistance Grant			<u>46,671</u>	<u>-</u>
Total U.S. Department of Justice			<u>146,400</u>	<u>-</u>
U.S. Department of Labor				
Passed through County of Orange Community Services Agency:				
Workforce Investment Act (WIA) Youth Activities Program Northern Region				
In-School Youth Program	17.259	55-20-11	171,812	-
In-School Youth Program	17.259	55-20-12	15,726	-
Out-of-School Youth Program	17.259	55-21-11	104,020	-
Out-of-School Youth Program	17.259	55-21-12	11,343	-
Total WIA Youth Activities Program - non-ARRA			<u>302,901</u>	<u>-</u>
ARRA Youth Recovery Act Program	17.259	55-2-11	47,264	-
Total U.S. Department of Labor			<u>350,165</u>	<u>-</u>

(Continued)

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

CITY OF LA HABRA
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2011

Federal Grantor/ Pass-through Grantor Program Title	Catalog of Federal Domestic Assistance Number	Program Identification Number		
U.S. Department of Transportation				
Passed through University of California at Berkeley:				
State and Community Highway Safety: Next Generation - Click it or Ticket 2009-10	20.600	CT11202	10,853	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated - Sobriety Checkpoint Mini-Grant Program 2009-10	20.608	SC11202	36,795	-
Passed through Anaheim Police Department:				
State and Community Highway Safety: AVOID the 26 DUI Campaign - OC	20.600	AL1178	16,440	-
Total U.S. Department of Transportation			64,088	-
U.S. Department of Energy				
Direct Program:				
ARRA - Energy Efficiency and Conservation Block Grant	81.128	SC0002176	316,554	-
Total U.S. Department of Energy			316,554	-
U.S. Department of Education				
Direct Program:				
Arts in Education - Young at Art (K-2)	84.351D	U351D090026	78,844	-
Young at Art (3-5)	84.215K	U215K100101	110,658	-
Total U.S. Department of Education			189,502	-
U.S. Department of Health and Human Services				
Passed through State of California:				
Public Health Emergency Preparedness: CDC PHEP Cities Readiness Initiative Grant	93.069	93285 S/L	11,428	-
Passed through California State Department of Education:				
Child Care and Development Fund (CCDF) Cluster: Child Care and Development Block Grant:				
Facilities Renovation and Repair Grant	93.575	CRPM-8091	34,532	-
Facilities Renovation and Repair Grant - ARRA	93.713	CRPM-0074	23,661	-
Infant Toddler Resource	93.575	CCAP-9046	6,601	-
Total Child Care and Development Block Grant			64,794	-
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	CCTR-0185	453,677	97,060
Total CCDF Cluster			518,471	97,060
Passed through Orange County Head Start:				
Head Start - non-ARRA	93.600	09-CH007-23	1,234,259	-
ARRA - Head Start	93.708	09-CH-0007	13,976	-
ARRA - Early Head Start	93.709	09-SA-0007	332,031	-
Total ARRA Head Start Cluster			346,007	-
Total Head Start Cluster			1,580,266	-
Total U.S. Department of Health and Human Services			2,110,165	97,060
U.S. Department of Homeland Security				
Passed through State of California:				
Non-Profit Security Program - FY08 Urban Area Security Initiative Grant	97.008	2008-GE-T80006	1,292	-
Emergency Management Performance Grant Program	97.042	20100044	32,073	-
Emergency Operations Center	97.052	2010-EO-MX-0016	18,248	-
Regional Catastrophic Preparedness Grant Program	97.111	2008-CP-T8-0018	2,051	-
Homeland Security Grant Program - FY09 Urban Area Security Initiative Grant	97.067	2009-0019	1,030	-
Total U.S. Department of Homeland Security			54,694	-
Total Federal Expenditures			\$ 6,029,485	\$ 1,512,553

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

CITY OF LA HABRA
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of La Habra and is presented on the modified accrual basis of accounting as described in Note (1)(c) of the City's basic financial statements. The information in this 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 Federal Financial Reports

Amounts reported in the accompanying Schedule agree, or can be reconciled with, amounts reported in the related federal award reports.

(3) Relationship to Basic Financial Statements

Federal award expenditures agree, or can be reconciled with, the amounts reported in the City's basic financial statements.

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CITY OF LA HABRA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

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?	No
• Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
Type of auditor’s report issued on compliance for major programs:	Unqualified for all major programs except for the CDBG Entitlement Grants Cluster, which was qualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.558	Child and Adult Care Food Program
14.218, 14.253	CDBG-Entitlement Grants Cluster
17.259	WIA Youth Activities Program Cluster
81.128	ARRA – Energy Efficiency and Conservation Block Grant
93.575, 93.596, 93.713	Child Care and Development Fund Cluster
93.600, 93.708, 93.709	Head Start Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as a low-risk auditee?	No

CITY OF LA HABRA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2011

Section II – Financial Statement Findings

None.

Section III – Federal Award Findings and Questioned Costs

Reference Number:	2011-01
Federal Program Titles:	Community Development Block Grant /Entitlement Grants (CDBG) Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)
Federal Catalog Numbers:	14.218 and 14.253
Federal Agency:	Department of Housing and Urban Development (HUD)
Federal Award Numbers and Years:	B-03-MC-06-0582, B-08-MC-06-0582, B-09-MC-06-0582, B-10-MC-06-0582, B-09-MY-06-0582
Category of Finding:	Reporting

Criteria or Specific Requirement

The reporting compliance requirement stated in OMB Circular A-133 *Compliance Supplement* requires that the prime recipient must submit *Integrated Disbursement and Information System (IDIS)* reports, such as C04PR03 – Activity Summary Report and C04PR26 – CDBG Financial Summary. The IDIS reports are included in the Consolidated Annual Performance and Evaluation Report (CAPER), which is due within 90 days after the reporting period.

Condition

During our audit of the reporting requirements, we noted that the CAPER was submitted in a timely manner; however, the financial information reported in the IDIS Report – C04PR26 was incorrect, such as *the unexpended CDBG funds at end of previous program year, total available, total expenditures, total public service obligations, and total planning and administration*. The City department responsible for the report is the Community Development Department.

Cause

The deficiency appears to be a lack of understanding of C04PR26 reporting components.

Effect

The program was not in compliance with the submissions of IDIS report, thus not providing HUD with accurate information to monitor (1) financial activities; (2) earmarking requirements; and (3) housing rehabilitation, housing construction, and other public construction activities.

Questioned Costs

Not applicable.

Recommendation

We recommend the City develop procedures to accurately capture information for grant reporting.

CITY OF LA HABRA
Summary Schedule of the Status of Prior Year Findings
For the Year Ended June 30, 2011

Management Response and Corrective Action

Unexpended CDBG funds at the end of the previous program year did not match the C04PR26 worksheet, because staff inadvertently picked up the incorrect beginning balance from the wrong worksheet. Staff will make a retroactive correction to report form C04PR26 to resolve this issue.

Reference Number:	2011-02
Federal Program Titles:	Community Development Block Grant /Entitlement Grants (CDBG) Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)
Federal Catalog Numbers:	14.218 and 14.253
Federal Agency:	Department of Housing and Urban Development (HUD)
Federal Award Numbers and Years:	B-03-MC-06-0582, B-08-MC-06-0582, B-09-MC-06-0582, B-10-MC-06-0582, B-09-MY-06-0582
Category of Finding:	Reporting

Criteria or Specific Requirement

The reporting compliance requirement stated in OMB Circular A-133 *Compliance Supplement* requires that the prime recipient submit SF-425, *Federal Financial Report*. The SF-425 form is due on the 30th calendar day following the end of each quarter.

Condition

During our audit of the reporting requirements, we noted that the City did not prepare and submit form SF-425 to HUD.

Cause

The deficiency appears to be a lack of procedures in understanding and identifying reporting requirements.

Effect

This program was not in compliance with the submissions of the SF-425 form, thus not providing HUD with necessary information to monitor (1) financial activities; (2) earmarking requirements; and (3) housing rehabilitation, housing construction, and other public construction activities.

Questioned Costs

Not applicable.

Recommendation

We recommend the City develop procedures to identify all reporting requirements.

CITY OF LA HABRA
Summary Schedule of the Status of Prior Year Findings
For the Year Ended June 30, 2011

Management Response and Corrective Action

Housing Staff was not aware of the requirement to submit this report. However, staff did complete all SF-272 reports for Fiscal Year 10-11. Evidently, the SF-425 replaces the SF-272 report. Now that staff is aware of the new reporting form, staff will begin reporting and submitting the SF-425 quarterly report for FY 2012 rather than the now obsolete SF-272 report.

Reference Number:	2011-03
Federal Program Title:	Community Development Block Grant /Entitlement Grants (CDBG)
Federal Catalog Number:	14.218
Federal Agency:	Department of Housing and Urban Development (HUD)
Federal Award Numbers and Years:	B-03-MC-06-0582, B-08-MC-06-0582, B-09-MC-06-0582, B-10-MC-06-0582
Category of Finding:	Subrecipient Monitoring

Criteria or Specific Requirement

In accordance with OMB A-133; Subpart D—Federal Agencies and Pass-through Entities; §__400 “A pass-through entity is responsible for: [...] (d)(2) advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity; (d)(3) monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and the performance goals are achieved; (d)(4) ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year have met the audit requirements of this part for that fiscal year; (d)(5) issue a management decision on audit findings within six months after receipt of the subrecipient’s audit report and sure that the subrecipient takes appropriate and timely corrective action.”

In accordance with OMB Circular A-133 *Compliance Supplement*, subrecipient monitoring includes “reporting, site visits, regular contacts, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements.”

In accordance with the subrecipient agreement between the City and its subrecipients, the subrecipients are required to submit quarterly performance reports to the City by the 15th day after the end of each quarter.

CITY OF LA HABRA
Summary Schedule of the Status of Prior Year Findings
For the Year Ended June 30, 2011

Condition

During our audit, we noted that three out of 36 quarterly reports were not submitted timely. The City department responsible for monitoring subrecipients for this program is the Community Development Department.

Cause

The deficiency appears to be due to a lack of policies and procedures to train a back-up staff to assure there are sufficient personnel available to prepare quarterly reports in a timely manner.

Effect

Noncompliance with the aforementioned requirement results (1) in the City being noncompliant with the Federal regulations regarding subrecipient monitoring compliance, and (2) in the risk that the City is funding organizations who are not complying with program requirements to achieve the program objectives in accordance with laws, regulations, and contract provisions.

Questioned Costs

Not applicable.

Recommendation

We recommend the City develop and document a formal subrecipient monitoring program to ensure the subrecipient provided training to back-up staff to assure there is sufficient personnel available to prepare and mail quarterly reports in a timely manner.

Management Response and Corrective Action

The person who is responsible for submitting them was out ill during these periods. There was no else in the office trained to complete these reports. Housing Staff will communicate with the Gary Center Management to provide training to another individual to assure there is sufficient personnel available to prepare and mail quarterly reports in a timely manner.

CITY OF LA HABRA
Schedule of the Status of Prior Year Findings
For the Year Ended June 30, 2011

Prior Year Financial Statements Findings

2010-01 Revenue Recognition

Comment

During the fiscal year 2010 audit, we identified three material audit adjustments relating to the deferred revenue. Two out of the three adjustments were related to the reclassification of the earned revenue that was not collected within the City's availability period and was recognized as revenue in the fund financial statements. The other audit adjustment was to correct an error posting of unearned revenue to a revenue line item in the financial statements.

Corrective Action Taken

The City has revised its Revenue Recognition Policy to state: (1) Revenues are recognized as soon as they are both measurable and available; (2) Revenues are considered available when they are collectible with the current period or soon enough thereafter to pay liabilities of the current period. For this purpose (except for grants), the government considers revenues to be available if they are collected with 365 days of the end of the current fiscal period; and (3) The government considers grant revenues to be available if they are collected within 365 days of the end of each specific grant period. This revision is effective for the 10/11 fiscal year

Status

No further instances were identified during fiscal year 2011.

2010-02 Financial Reporting

Comment

During the fiscal year 2010 audit, we noted that the City's 2009 Comprehensive Annual Financial Report (CAFR) was not reconciled to the La Habra Redevelopment Agency (RDA) stand-alone financial statement. We identified two material adjustments affecting beginning fund balance relating to the (1) the accrued interest on advances in the amount of \$363,631 that was not reported in the CAFR for the General Fund and the RDA Operating Special Revenue Fund, and (2) the accrued interest in the amount of \$1,319,247 that was not collected within the availability period and was recognized as interest revenue in the General Fund. In addition, the accrued interest on advances in the amount of \$221,724 for the current year was not recorded in the financial system, and an audit adjustment was proposed and made to the 2010 CAFR.

Corrective Action Taken

1. In FY 08/09 the RDA financial statements identified accrued interest of \$363,631 on a loan made by the General Fund to the RDA in the footnotes; however, due to an oversight, this transaction was not reported in the City's CAFR. The oversight was corrected in the FY 09/10 financial statements.
2. With regards to the accrued interest of \$1,319,247 that was not collected within the availability period and was recognized as interest revenue in the General Fund, the City's auditors at that time provided direction as to the recording of interest expense and revenue. Effective with the FY 09/10 CAFR, and at the direction of our current auditors, we have reclassified the accrued interest income and have adjusted the restricted General Fund fund balance accordingly.

CITY OF LA HABRA
Summary Schedule of the Status of Prior Year Findings (Continued)
For the Year Ended June 30, 2011

3. With regards to the accrued interest on advances in the amount of \$221,724 not being recorded in the financial system, this amount had been calculated for FY 09/10 by staff; however, had not been recorded in anticipation of receiving clarification from our auditors. Unfortunately, this clarification was made in the form of an audit finding. We have since recorded the accrued interest in the FY 09/10 CAFR and will continue to report this liability in the RDA's financial statements, as well as the CAFR

Status

No further instances were identified during fiscal year 2011.

2010-03 Payroll Related to Terminated Employees

Comment

During the fiscal year 2010 audit, we documented our understanding of the City's internal controls over the payroll process including controls over the termination of employees. We selected one terminated employee to verify our understanding of the sick leave payout process and noted that the individual was paid an amount in excess of the maximum accrued sick leave cap per the memorandum of understanding (MOU) for field services. At the time of termination, the employee had accrued and was paid for 600 hours with 25% payoff and should have been paid on a maximum of 480 hours with 25% payoff resulting in an over payment of \$1,059.

As a result of this error, we selected an additional sample of five terminated employees and noted that the payouts appeared appropriate, although for three out of five individuals, the final vacation and sick payout documentation was not signed by the Senior Accountant for approval.

Corrective Action Taken

The Finance department has implemented policies and procedures relating to the review and approval of terminated employee's final payouts to ensure final payouts are computed in accordance with the MOU for each bargaining unit.

Status

No further instances were identified during fiscal year 2011.

CITY OF LA HABRA
Summary Schedule of the Status of Prior Year Findings (Continued)
For the Year Ended June 30, 2011

Prior Year Federal Award Findings and Questioned Costs

Reference Number:	2010-04
Federal Program Titles:	Community Development Block Grant /Entitlement Grants (CDBG) Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)
Federal Catalog Numbers:	14.218 and 14.253
Federal Agency:	Department of Housing and Urban Development (HUD)
Federal Award Numbers and Years:	B-07-MC-06-0582, B-08-MC-06-0582, B-09-MC-06-0582, B-09-MY-06-0582
Category of Finding:	Reporting

Condition:

During the fiscal year 2010 audit of the reporting requirements, we noted that the SF-272 and HUD 60002 forms were not submitted during the fiscal year. The CAPER was submitted in a timely manner; however, the financial information reported in the IDIS Report – C04PR26 was incorrect, such as *the unexpended CDBG funds at end of previous program year, total available, total expenditures, total public service obligations, and total planning and administration*. The City department responsible for these reports is the Community Development Department.

Corrective Action Taken

The City has filled the vacant management position since the previous year audit. The Housing Manager has reviewed prior audit deficiencies and has implemented a schedule of activities delineating due dates for reports. As a result, all reports for fiscal year 2012 have been submitted in a timely manner. Furthermore, the Housing Manager developed a Housing Division Reference Manual which includes procedures, reporting forms, schedule, regulations, compliance document checklist, and other important reports. The Housing Manager has provided significantly more program oversight than her predecessors and has scheduled training for current staff in the areas of program reporting and compliance.

Status

Similar findings were identified in the fiscal year 2011. See Items 2011-01 and 2011-02 in Schedule of Findings and Question Costs.

CITY OF LA HABRA
Summary Schedule of the Status of Prior Year Findings (Continued)
For the Year Ended June 30, 2011

Reference Number: 2010-05
Federal Program Title: Community Development Block Grant /Entitlement Grants (CDBG)
Federal Catalog Number: 14.218
Federal Agency: Department of Housing and Urban Development (HUD)
Federal Award Numbers and Years: B-07-MC-06-0582, B-08-MC-06-0582, B-09-MC-06-0582
Category of Finding: Subrecipient Monitoring

Condition

During the fiscal year 2010 audit, we noted that the City did not perform site visits for its subrecipients during the fiscal year. In addition, City staff did not maintain copies of the single audit reports received nor could we verify if City staff reviewed the Federal Clearinghouse website to determine whether any of the subrecipients' Single Audit reports included findings or questioned costs related this program. Furthermore, we selected six subrecipient files and noted the following:

- Three files did not have all four quarterly reports
- Four files included quarterly reports that were not submitted timely
- One file did not have the submission dates of the quarterly reports documented

The City department responsible for monitoring subrecipients for this program is the Community Development Department.

Corrective Action Taken

As noted in the response for item 2010-04, the City now has a Housing Manager who is actively assisting staff to administer our CDBG programs. The Housing Manager implemented a *Guidebook for CDBG Grantees on the Subrecipient Oversight* which includes a summary of monitoring objectives along with a checklist of things to look for during the monitoring process. The monitoring process has been completed in in fiscal year 2012 making sure every subrecipient provided a financial report and has a clear understanding of the CDBG program.

Status

Similar finding was identified in the fiscal year 2011. See Item 2011-03 in Schedule of Findings and Question Costs.

CITY OF LA HABRA
Summary Schedule of the Status of Prior Year Findings (Continued)
For the Year Ended June 30, 2011

Reference Number:	2010-06
Federal Program Title:	Community Development Block Grant /Entitlement Grants (CDBG)
Federal Catalog Number:	14.218
Federal Agency:	Department of Housing and Urban Development (HUD)
Federal Award Numbers and Years:	B-07-MC-06-0582, B-08-MC-06-0582, B-09-MC-06-0582
Category of Finding:	Special Tests and Provisions – Required Certifications and HUD Approvals; Environmental Review

Condition

During the fiscal year 2010 audit, we selected nine of the City’s twenty-three active projects for review and noted the following:

- Seven project files did not include documentation that an environment review determination was performed. This determination is the basis for the need for an environmental review or an exemption.
- One project file included an environmental review but did not include the required Request for Release of Funds (RROF).
- One project should have had an environmental review performed but the environmental review could not be located for our review.

The City department responsible to maintain documentation of the determination and the actual reviews for this program is the Community Development Department.

Corrective Action Taken

The Housing Manager implemented an Environmental Review Requirement checklist along with an easy to follow flowchart of what type of review is needed. The Housing Manager has also added the environmental regulations and procedure required by HUD to the Housing Division Reference Manual, as well as worksheets required under this program. An Environmental Assessment Report was added to identify what types of environmental requirements are needed for various projects. Program staff has and will continue completing the environmental review determination sheets for each of the subrecipients who receive CDBG funding and include the sheets in their respective files.

Status

No further instances were identified during fiscal year 2011.

CITY OF LA HABRA
Summary Schedule of the Status of Prior Year Findings (Continued)
For the Year Ended June 30, 2011

Reference Number:	2010-07
Federal Program Title:	Community Development Block Grant /Entitlement Grants (CDBG)
Federal Catalog Number:	14.218
Federal Agency:	Department of Housing and Urban Development (HUD)
Federal Award Numbers and Years:	B-07-MC-06-0582, B-08-MC-06-0582, B-09-MC-06-0582
Federal Program Title:	Workforce Investment Act (WIA) Youth Activities Program Cluster, including ARRA
Federal Catalog Number:	17.259
Federal Agency:	Department of Labor
Pass-Through Entity:	County of Orange Community Services Agency
Pass Through Award Numbers and Years:	55-2O-10, 55-2I-10, 55-2ARA-09
Federal Program Title:	Head Start
Federal Catalog Number:	93.600
Federal Agency:	Department of Health and Human Services
Pass-Through Entity:	Orange County Head Start
Pass Through Award Number and Year:	09-CH007-23
Category of Finding:	Allowable Costs/Cost Principles

Condition

CDBG: During the fiscal year 2010 audit, we noted that for one out of sixty payroll transactions tested, the time charged to the program was incorrect. The hours charged to the program were overstated. The employee affected was assigned to the Community Development Department.

WIA: During the fiscal year 2010 audit, we noted that for one out of sixty payroll transactions tested, the time charged to the program was incorrect. The hours related to these transactions were allocated to one of the non-ARRA WIA contracts and should have been allocated to the ARRA WIA contract. The account charge code for the ARRA WIA contract was not setup timely prior to payroll processing. The employee affected was assigned to the Community Services Department, and the City department responsible for setting up account charge code in the payroll system is the Finance Department.

Head Start-non-ARRA: During the fiscal year 2010 audit, we noted that for four out of sixty payroll transactions tested, the pay rate was not supported by authorized pay rate schedule. These four instances were related to the same employee. This employee was overpaid by \$0.006 per hour. The City department responsible for inputting pay rates is the Finance Department.

Corrective Action Taken

The Finance Department has reviewed the established policies and procedures (1) for timekeeping records with the Community Development Department and the Community Services Department staff to ensure these departments understand the procedures to accurately capture information for grant reporting, and (2) for updating pay rates to ensure that the authorized pay rates are inputted accurately and reviewed timely.

CITY OF LA HABRA
Summary Schedule of the Status of Prior Year Findings (Continued)
For the Year Ended June 30, 2011

Status

No further instances were identified during fiscal year 2011.

Reference Number:	2010-08
Federal Program Title:	Community Development Block Grant /Entitlement Grants (CDBG)
Federal Catalog Number:	14.218
Federal Agency:	Department of Housing and Urban Development (HUD)
Federal Award Numbers and Years:	B-07-MC-06-0582, B-08-MC-06-0582, B-09-MC-06-0582
Category of Finding:	Allowable Costs/Cost Principles

Condition

During the fiscal 2010 audit, we noted for one out of forty-three checks tested, an invoice amount charged to the program was overstated due to a data entry error. The City department responsible for inputting invoices to the system is the Finance Department.

Corrective Action Taken

The Finance Department has reviewed the established policies and procedures with staff to ensure the invoices are inputted correctly.

Status

No further instances were identified during fiscal year 2011.

Reference Number:	2010-09
Federal Program Title:	Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)
Federal Catalog Number:	14.253
Federal Agency:	Department of Housing and Urban Development (HUD)
Federal Award Numbers and Years:	B-09-MY-06-0582
Category of Finding:	Reporting – ARRA Section 1512

Condition

During the fiscal year 2010 audit, we noted that during quarters of no expenditure activity the City did not submit the required quarterly ARRA reports timely. The City department responsible for this program is the Community Development Department.

Corrective Action Taken

A schedule has been implemented by the Housing Manager so staff can follow and report in a timely manner.

Status

No further instances were identified during fiscal year 2011.