

CITY OF LA HABRA
Single Audit Report
For the Year Ended June 30, 2010

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For the Year Ended June 30, 2010

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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, 2010, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated March 31, 2011. 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

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiency described in item 10-01 in the accompanying schedule of findings and questioned costs to be a material weakness.

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. We consider the deficiencies described in items 10-02 and 10-03 in the accompanying schedule of findings and questioned costs to be significant deficiencies.

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 March 31, 2011.

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 them.

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

Certified Public Accountants
Newport Beach, California

March 31, 2011

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, 2010. 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 10-04 to 10-06 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding the reporting, subrecipient monitoring, and special tests and provisions of required certifications and HUD approvals, and environmental review, that are applicable to its Community Development Block Grant. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to those programs.

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, 2010. The results of our auditing procedures also disclosed other instances of noncompliance with those compliance requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 10-07 to 10-09.

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 10-04 to 10-06 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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 10-07 to 10-09 to be significant deficiencies.

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, 2010, and have issued our report thereon dated March 31, 2011. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken 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 Fini & O'Connell LLP

Certified Public Accountants
Newport Beach, California

March 31, 2011

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CITY OF LA HABRA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

Federal Grantor/ Pass-through Grantor Program Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Subrecipients
U.S. Department of Agriculture				
Passed through State of California Department of Education:				
Child and Adult Care Food Program	10.558	30-1454-1J	\$ 268,736	\$ -
Child and Adult Care Food Program	10.558	30-1454-7F	1,479,320	1,268,234
Total Child Care and Adult Care Food Program Grant			<u>1,748,056</u>	<u>1,268,234</u>
Total U.S. Department of Agriculture			<u>1,748,056</u>	<u>1,268,234</u>
U.S. Department of Commerce				
Passed through City of Santa Ana:				
Public Safety Interoperable Communications Grant	11.555	2007-GS-47-0008	73,803	-
Total U.S. Department of Commerce			<u>73,803</u>	<u>-</u>
U.S. Department of Housing and Urban Development				
Direct programs:				
Community Development Block Grant	14.218	B-07-MC-06-0582	1,085	-
Community Development Block Grant	14.218	B-08-MC-06-0582	8,741	-
Community Development Block Grant	14.218	B-09-MC-06-0582	734,316	99,653
Total Community Development Block Grant - non-ARRA			<u>744,142</u>	<u>99,653</u>
ARRA - Community Development Block Grant ARRA Entitlement Grant	14.253	B-09-MY-06-0582	-	-
Total Community Development Block Grant Entitlement Cluster			<u>744,142</u>	<u>99,653</u>
Total U.S. Department of Housing and Urban Development			<u>744,142</u>	<u>99,653</u>
U.S. Department of Justice				
Direct Programs:				
Bulletproof Vest Partnership Program	16.607	2004BUBX04023483	3,187	-
Public Safety Partnership and Community Policing Program	16.710	2008CKWX0169	45,529	-
Passed through County of Orange:				
ARRA - Edward Byrne Memorial Justice Assistance Grant	16.804	2009-SB-B9-0271	73,122	-
Total U.S. Department of Justice			<u>121,838</u>	<u>-</u>
U.S. Department of Labor				
Passed through County of Orange Community Services Agency:				
Workforce Investment Act (WIA) Youth Activities Program:				
In-School Youth Program	17.259	55-2O-10	518,400	-
Out-of-School Youth Program	17.259	55-2I-10	343,721	-
Total WIA Youth Activities Program - non-ARRA			<u>862,121</u>	<u>-</u>
ARRA Youth Recovery Act Program	17.259	55-2ARA-09	472,067	-
Total U.S. Department of Labor			<u>1,334,188</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, 2010

Federal Grantor/ Pass-through Grantor Program Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Subrecipients
U.S. Department of Transportation				
Passed through State of California:				
ARRA - Highway Planning and Construction Grant	20.205	ESPL 5266 (018)	336,897	-
Passed through University of California Berkeley:				
State and Community Highway Safety Grant	20.600	CT10202	13,353	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated Grant	20.608	SC10202	35,914	-
Total U.S. Department of Transportation			386,164	-
Institute of Museum and Library Services				
Office of Museum Services				
Direct Program:				
Museums for America	45.301	MA-03-07-0148-07	27,158	-
Total U.S. Department of Energy			27,158	-
U.S. Department of Energy				
Direct Program:				
ARRA - Energy Efficiency and Conservation Block Grant	81.128	SC0002176	37,379	-
Total U.S. Department of Energy			37,379	-
U.S. Department of Health and Human Services				
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-7037	37,963	-
Facilities Renovation and Repair Grant	93.575	CRPM-8091	5,155	-
Instructional Materials Grant	93.575	CIMS-9379	1,781	-
Total Child Care and Development Block Grant			44,899	-
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	CCTR-9185	497,413	88,630
Total CCDF Cluster			542,312	88,630
Passed through Orange County Head Start:				
Head Start - non-ARRA	93.600	09-CH007-23	1,194,763	-
ARRA - Head Start	93.708	09-CH-0007	82,014	-
ARRA - Early Head Start	93.709	09-SA-0007	34,123	-
Total ARRA Head Start Cluster			116,137	-
Total Head Start Cluster			1,310,900	-
Total U.S. Department of Health and Human Services			1,853,212	88,630
U.S. Department of Homeland Security				
Passed through State of California:				
Emergency Management Performance Grant Program	97.042	2008-9	10,956	-
Total U.S. Department of Homeland Security			10,956	-
Total Federal Expenditures			\$ 6,336,896	\$ 1,456,517

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, 2010

(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, 2010

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?	Yes
• 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?	Yes
• Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
Type of auditor’s report issued on compliance for major programs:	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>
14.218, 14.253	CDBG-Entitlement Grants Cluster
17.259	WIA Youth Activities Program Cluster
20.205	Highway Planning and Construction 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, 2010

Section II – Financial Statement Findings

Item 10-01 Revenue Recognition

Comment

During our 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.

Recommendation

We recommend that the City develop and implement a procedure to ensure that revenues are only recognized when they are measureable, available and earned in the fiscal period.

Management's Response

In each instance, the City had been appropriated grant funding from federal and state sources for specific grant funded projects. These projects were either underway or completed during the fiscal year with funds expended in advance of grant reimbursement. Grant funding to reimburse the City for these projects were received beyond the 60 day required period. On a go forward basis, we will record the pending grant reimbursements as deferred revenues unless they are received within 60 days of the new fiscal year.

Item 10-02 Financial Reporting

Comment

During our 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 (1) the accrued interest on advances in the amount of \$363,631 that was not reported in the CAFR for General Fund and 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.

Recommendation

We recommend that the City develop and implement a procedure to ensure that the City's CAFR is reconciled to the other City's stand-alone financial statements. We further recommend that the City perform reconciliations on account balances prior to completion of the year-end processing and before the commencement of the audit to ensure proper financial reporting.

CITY OF LA HABRA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2010

Management's Response

- 1) In the FY 08/09 CAFR, our auditors identified the fact that we had not reported the accrued interest on a loan made by the General Fund (GF) to the Redevelopment Agency (RDA). We agreed then that this was an oversight and calculated the accrued interest owed by the RDA. This was reported in a footnote to the financial statements at that time. We will continue to accrue the interest expense and will report this liability in the RDA's financial statements, as well as the CAFR.
- 2) The accrued interest in this instance relates to the 1998 B&C bonds issued by the City to refinance prior RDA bonds. The RDA will repay the City for the expense related to this financing as funding becomes available, thus, reducing the outstanding liability. When this transaction was first completed, the City's auditors at that time provided direction as to the recording of interest expense and revenue. Until now, this has been the method by which this accrued interest has been recorded. Effective with the FY 09/10 CAFR, and at the direction of our current auditors, we will reclassify the accrued interest income and will adjust the restricted General Fund fund balance accordingly.

Item 10-03 Payroll Related to Terminated Employees

Comment

During our 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.

Recommendation

We recommend that the City review the established policies and procedures relating to the review and approval of terminated employees' final payouts to ensure that the final payouts are computed in accordance with the MOU for each bargaining unit.

Management's Response

After speaking with payroll and administrative services staff, it appears that the error that was identified was a one time clerical error. Our current procedures will be modified so that A) Administrative Services staff will provide information on all personnel action forms relating to terminated or separating employees that clearly identifies those individuals specific leave payoff maximum limits per their bargaining unit MOU provisions; that B) Payroll staff will utilize a leave payoff calculation model that will provide the correct amounts of leave

CITY OF LA HABRA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2010

payoff for separating employees; and that C) the Senior Accountant will review and approve, in writing, the final leave payoff amounts owed to separating employees prior to a final check being issued.

Section III – Federal Award Findings and Questioned Costs

Item 10-04 Reporting

Federal Grantor: Department of Housing and Urban Development
Program: Community Development Block Grant (CDBG) Entitlement Cluster,
including ARRA
CFDA No.: 14.218 and 14.253

Criteria or Specific Requirement

The reporting compliance requirement in accordance with OMB Circular A-133 Compliance Supplement requires that the prime recipient must submit SF-272, *Federal Cash Transactions Report*, and *Integrated Disbursement and Information System (IDIS)* reports, such as C04PR03 – Activity Summary Report and C04PR26 – CDBG Financial Summary. The SF-272 form is due on the 15th calendar day following the end of each quarter. The IDIS reports are included in the Consolidated Annual Performance and Evaluation Report (CAPER), which is due within 90 days after the reporting period.

In addition, the prime recipient must submit Form HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low-and Very Low-Income Persons*, for each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction. For recipients of HUD Community Planning and Development funding, the Form HUD 60002 is due at the same time as annual performance (e.g., CAPERS) reports, which is within 90 days after the reporting period.

Condition

During our 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.

Cause

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

CITY OF LA HABRA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2010

Effect

These programs were not in compliance with the submissions of SF-272 forms, IDIS reports, and HUD 60002 form, thus not providing HUD with necessary information to monitor (1) financial activities; (2) earmarking requirements; (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 and to accurately capture information for grant reporting.

Management's Response

Over the past 18 months the Community Development department has had challenges in filling and retaining a Housing and Redevelopment Manager. This has resulted in shifting responsibility for the administration and oversight of various programs and functions, including CDBG, among other staff. During this period, the City has essentially had only one staff member available to manage these programs, and this employee was not aware that form SF-272, *Federal Cash Transactions Report* and the Form HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low-and Very Low-Income Persons* was required to be submitted during the timeframes indicated. In addition, it does not appear that any notification was sent by HUD regarding the delinquency of these reports. After discussing this issue with the employee, it does not appear that the employee received sufficient training regarding these reporting requirements. The City is currently recruiting to fill the vacant management position to provide more program oversight and will be scheduling training for current staff in the areas of program reporting and compliance.

CITY OF LA HABRA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2010

Item 10-05 Subrecipient Monitoring

Federal Grantor: Department of Housing and Urban Development
Program: Community Development Block Grant (CDBG)
CFDA No. 14.218

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, the during-the-award 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.

Condition

During our 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.

CITY OF LA HABRA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2010

Cause

The deficiency appears to be due to a lack of policies and procedures to conduct subrecipient monitoring activities and follow-up of any identified findings and/or questioned costs.

Effect

Noncompliance with the aforementioned requirement results (1) in the City being noncompliance 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

\$99,653

Recommendation

We recommend the City develop and document a formal subrecipient monitoring program to 1) ensure the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved, 2) ensure the required Single Audit is completed within nine months of the end of the subrecipient's audit period if the subrecipient expends \$500,000 or more in Federal awards during the year ended, 3) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report, and 4) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings.

Management's Response

As indicated in our response to Item 10-07, the City has had intermittent staffing over the past 18 months to help administer our housing, RDA and CDBG programs. As a result, there have been delays in monitoring sub-reipients or insuring that program staff is properly recording and reporting program and financial information. As the management position overseeing this responsibility is still currently vacant, other department management staff has been assigned to oversee these programs and will be directing staff to conduct the required sub-recipient site visits and to ensure that quarterly reporting is done accurately and on a timely basis.

CITY OF LA HABRA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2010

***Item 10-06 Special Tests and Provisions – Required Certifications and HUD Approvals;
Environmental Review***

Federal Grantor: Department of Housing and Urban Development
Program: Community Development Block Grant (CDBG)
CFDA No. 14.218

Criteria or Specific Requirement

In accordance with OMB Circular A-133 Compliance Supplement, “CDBG funds cannot be obligated or expended before receipt of HUD’s approval of a Request for Release of Funds (RROF) and environmental certification. Projects must have an environmental review unless they meet criteria specified in the regulations that would exempt or exclude them from RROF and environmental certification requirements.”

Condition

During our 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 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.

Cause

The deficiency appears to be due to a lack of understanding of the environmental review requirements, including required certifications, and HUD’s approval of RROF requirements.

Effect

Noncompliance with the aforementioned requirement results in the risk that the CDBG funds are used for projects that have environmental impact requirements which require HUD’s approval.

Questioned Costs

\$744,142

CITY OF LA HABRA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2010

Recommendation

We recommend that the City develop and implement procedures to 1) identify all environmental review certifications and HUD approvals of RROF requirements, 2) ensure all environmental review determinations are performed prior to the commitment of CDBG funds to the projects, and 3) ensure environmental review certifications and the receipt of HUD approvals of RROFs before the CDBG funds are obligated or expended for the projects that require an environmental review.

Management's Response

After reviewing the circumstances surrounding this finding, it appears that the seven project files in question did not include documentation that an environmental review determination was performed; however program staff did make the proper determinations in IDIS system. Had this not occurred, HUD would not have released the funds to the City nor would our program staff been able to complete a drawdown in IDIS. Our program staff will complete environmental review determination sheets for each of the subrecipients who receive CDBG funding and will include the sheets in their respective files.

Item 10-07 Allowable Costs/Cost Principles

Federal Grantor: Department of Housing and Urban Development
Program: Community Development Block Grant (CDBG)
CFDA No. 14.218

Federal Grantor: Department of Labor
Passed through: County of Orange Community Services Agency
Program: Workforce Investment Act (WIA) Youth Activities Program Cluster, including ARRA
CFDA No. 17.259

Federal Grantor: Department of Health and Human Services
Passed through: Orange County Head Start
Program: Head Start
CFDA No. 93.600

Criteria or Specific Requirement

In accordance with OMB Circular A-87, costs must be adequately documented. When Federal funds are used to pay for personnel related expenditures, grantees must ensure time charged to the programs is supported by personnel activity reports; e.g., time and attendance records.

Condition

CITY OF LA HABRA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2010

CDBG: During our 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 our 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 our 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.

Cause

The deficiencies appear to be due to lack of review and reconciliation of payroll charges.

Effect

CDBG: Actual payroll expenditures charged to the program was overstated by \$514. The projected overstatement of charges to the program was \$3,804.

WIA: Actual payroll expenditures charged to non-ARRA WIA contract were overstated by \$152, the same amount undercharged to the ARRA WIA contract.

Head Start-non-ARRA: Actual payroll expenditures charged to the program were overstated by \$11. The projected overstatement of charges to the program was \$259.

Questioned Costs

CDBG: The projected overstatement of charges to the program was \$3,804.

WIA: The overstatement of charges to the program was \$152.

Head Start: The projected overstatement of charges to the program was \$259.

Recommendation

CITY OF LA HABRA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2010

We recommend that the Finance Department review the established policies and procedures (1) for timekeeping records with the Community Development Department and the Community Services Department to ensure that 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.

Management's Response

After reviewing the circumstances surrounding these limited, relatively minor payroll discrepancies and discussing the specific circumstances with staff, it appears that, in each circumstance, inadvertent clerical error was the cause of the mistake.

In the case of the CDBG error, the employee charging labor to the CDBG project failed to properly code their time to a project. In most cases, this error is identified by the supervisor approving the time sheet; however, in this case it appears that that redundancy failed.

In the case of the WIA mis-charge, the employee utilized the correct new payroll code for the activity; however, when the department clerk input the payroll data, the new code had not yet been established in the payroll system, causing the employee's time to be charged to their default payroll code. In the cases when this happens, the department clerk will notify the payroll clerk to correct the coding error; however, in this case it appears that that redundancy failed.

In the case of the Head Start pay rate error, it appears that payroll staff may have made an input or transposition error when they initially established the employee's pay rate, which resulted in the rate being incorrect by less than one cent per hour. In most cases, this type of error is identified by personnel staff when rates are verified; however, in this case it appears that that redundancy failed.

Item 10-08 Allowable Costs/Cost Principles

Federal Grantor: Department of Housing and Urban Development
Program: Community Development Block Grant (CDBG)
CFDA No. 14.218

Criteria or Specific Requirement

In accordance with OMB Circular A-87, costs must be allocable to Federal awards under the provisions of A-87. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

CITY OF LA HABRA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2010

Condition

During our 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.

Cause

The deficiency appears to be due to lack of review of invoices being entered into the Accounting and Financial Reporting System.

Effect

Actual expenditure charged to the program was overstated by \$1,707. The projected overstatement of charges to the program was \$1,972.

Questioned Costs

The projected overstatement of charges to the program was \$1,972.

Recommendation

We recommend that the Finance Department review the established policies and procedures to ensure the invoices are inputted correctly.

Management's Response

After a review of the invoices in question and discussing the circumstances with accounts payable staff, it appears that the cause of the mistake was clerical error. The clerk properly identified the invoice expenses; however, failed to properly code a portion of the expense to a different expense line item. In most cases, this type of error is identified by the supervisor at the time he reviews the payments; however, in this case it appears that that redundancy failed.

Item 10-09 Reporting – ARRA Section 1512

Federal Grantor: Department of Housing and Urban Development
Program: ARRA-Community Development Block Grant ARRA Entitlement Grant (CDBG-R)
CFDA No.: 14.253

Criteria or Specific Requirement

In accordance with Section 1512 of the American Recovery and Reinvestment Act of 2009 (ARRA), recipients are required to submit information on the projects and activities funded by the ARRA no

CITY OF LA HABRA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2010

later than the 10th day after the end of each calendar quarter, even if there has been no activity during the period.

Condition

During our 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.

Cause

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

Effect

The City did not comply with ARRA requirements.

Questioned Costs

Not applicable.

Recommendation

We recommend the City develop and implement procedures to identify all reporting requirements and to submit the ARRA reports timely to ensure compliance with program requirements.

Management's Response

During this reporting period, there were no expenditure activities related to ARRA funding; therefore, staff did not assume that quarterly reports were necessary. The City's HUD representative became aware that the City was not submitting quarterly reports and contacted our program staff to make them aware that reporting was still required, despite a lack of expenditure activity. This is a training issue that has subsequently been identified and corrected and quarterly reports will be submitted as required on a go forward basis.

CITY OF LA HABRA
Schedule of Prior Audit Findings
For the Year Ended June 30, 2010

There were no audit findings for the year ended June 30, 2009.