

CITY OF LA HABRA, CALIFORNIA

Single Audit Report

Year Ended June 30, 2014

CITY OF LA HABRA, CALIFORNIA
Year Ended June 30, 2014

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Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of La Habra, California (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated June 19, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item number 2014-001.

City's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Macias Gini O'Connell LEA". The signature is written in a cursive, slightly slanted style.

Newport Beach, California
June 19, 2015

Independent Auditor’s 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 OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of La Habra, California’s (the 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, 2014. The City’s major federal programs are identified in the summary of independent auditor’s 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.

Auditor’s Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City’s compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 19, 2015, 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 OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Newport Beach, California
June 19, 2015

CITY OF LA HABRA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

Federal Grantor/ Pass-through Grantor Program Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures
U.S. Department of Agriculture:			
Passed through California Department of Education:			
Child and Adult Care Food Program	10.558	04320-CACFP-30-GM-CS	\$ 264,814
Child and Adult Care Food Program	10.558	04320-CACFP-30-GM-DCH	1,496,946
Total U.S. Department of Agriculture			<u>1,761,760</u>
U.S. Department of Housing and Urban Development			
Direct Program:			
Community Development Block Grants/Entitlement Grants	14.218*	B-12-MC-06-0582	8,922
Community Development Block Grants/Entitlement Grants	14.218*	B-13-MC-06-0582	503,580
Economic Development Initiative	14.UNKNOWN*	B-06-SP-CA-0121	74,250
Total CDBG - Entitlement Grants Cluster			586,752
Total U.S. Department of Housing and Urban Development			<u>586,752</u>
U.S. Department of Justice			
Direct Programs:			
Bulletproof Vest Partnership Program	16.607	2013BUBX13066909	2,444
Bulletproof Vest Partnership Program	16.607	2014BUBX14073805	2,981
Subtotal			<u>5,425</u>
Equitable Sharing Program	16.922	CA0301200	71,884
Total U.S. Department of Justice			<u>77,309</u>
U.S. Department of Labor			
Passed through Orange County Social Services Agency:			
WIA Youth Activities	17.259	55-20-14	200,705
WIA Youth Activities	17.259	55-21-14	144,488
Total WIA Cluster			345,193
Total U.S. Department of Labor			<u>345,193</u>
U.S. Department of Transportation			
Passed through California State Transportation Agency:			
Recreational Trails Program	20.219	12-ORA-O-LHB	11,123
State and Community Highway Safety	20.600	PT1423	21,859
Total Highway Safety Cluster			32,982
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT1423	28,761
Passed through University of California, Berkeley:			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	SC14202	69,328
Passed through Anaheim Police Department:			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	AL1440	8,284
Subtotal			<u>106,373</u>
Total U.S. Department of Transportation			<u>139,355</u>
U.S. Department of Treasury:			
Direct Program:			
Equitable Sharing Program	21.000	CA0301200	142,239
Total U.S. Department of Treasury			<u>142,239</u>
Institute of Museum and Library Services			
Direct Program:			
Museums for America	45.301	MA-04-11-0258-11	77,114
Total Institute of Museum and Library Services			<u>77,114</u>
U.S. Department of Education			
Direct Program:			
Arts in Education	84.351	U351D090026	12,435
Total U.S. Department of Education			<u>12,435</u>

* Denotes major program or cluster

See accompanying Notes to Schedule of Expenditures of Federal Awards.

CITY OF LA HABRA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

Federal Grantor/ Pass-through Grantor Program Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures
U.S. Department of Health and Human Services			
Passed through California Department of Education:			
Child Care and Development Block Grant	93.575*	CCTR-3159	228,736
Child Care and Development Block Grant	93.575*	CSPP-3315	35,910
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596*	CCTR-3159	479,528
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596*	CSPP-3315	75,285
Total CCDF Cluster			819,459
Passed through Orange County Head Start:			
Head Start	93.600*	09-CH007-32	1,575,048
Total U.S. Department of Health and Human Services			2,394,507
U.S. Department of Homeland Security			
Passed through California Governor's Office of Emergency Services:			
Emergency Management Performance Grants	97.042	2012-0048	11,793
Emergency Management Performance Grants	97.042	2013-0047	9,499
Subtotal			21,292
Homeland Security Grant Program	97.067		16,617
Passed through Anaheim Police Department:			
Homeland Security Grant Program	97.067	2011-SS-0077	4,676
Subtotal			42,585
Total U.S Department of Homeland Security			42,585
Total Expenditures of Federal Awards			\$ 5,579,249

* Denotes major program or cluster
See accompanying Notes to Schedule of Expenditures of Federal Awards.

CITY OF LA HABRA, CALIFORNIA
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the federal activity of all federal award programs of the City of La Habra, California (the City). The Schedule includes federal awards received directly from federal agencies, as well as federal awards passed through from other agencies. The City's reporting entity is defined in Note 1 to the City's basic financial statements. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to, and does not, present the financial position of the City.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified-accrual basis of accounting for those grants that were recorded in governmental funds, and on the accrual basis of accounting for those grants that were recorded in proprietary funds. Expenditures are recognized following the cost principles contained in Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(3) Subrecipients

Of the Federal expenditures presented in the schedule, the City provided Federal awards to subrecipients as follows:

<u>Program Title Provided</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
U.S Department of Agriculture		
Child and Adult Care Food Program	10.558	\$ 1,296,504
Total U.S. Department of Agriculture		<u>1,296,504</u>
U.S. Department of Housing and Urban Development		
Community Development Block Grants/Entitlements Grants Cluster	14.218	76,607
Total U.S. Department of Housing and Urban Development		<u>76,607</u>
U.S. Department of Health and Human Services		
Child Care and Development Block Grant	93.575	69,623
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	148,529
Total U.S. Department of Health and Human Services		<u>218,152</u>
Total Amount Provided to Subrecipients		<u>\$ 1,591,263</u>

CITY OF LA HABRA, CALIFORNIA
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2014

Section I – Summary of Independent Auditor’s Results

Financial Statements:

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
<ul style="list-style-type: none"> • Material weakness (es) identified? 	No
<ul style="list-style-type: none"> • Significant deficiency (ies) identified that are not considered to be material weaknesses? 	None reported
<ul style="list-style-type: none"> • Noncompliance material to financial statements noted? 	Yes

Federal Awards:

Internal control over major programs:	
<ul style="list-style-type: none"> • Material weakness(es) identified? 	No
<ul style="list-style-type: none"> • Significant deficiency(ies) identified that are not considered to be material weaknesses? 	None reported
Type of auditor’s report issued on compliance for major programs:	Unmodified
<ul style="list-style-type: none"> • Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? 	No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grants / Entitlement Grants Cluster
93.575 and 93.596	Child Care and Development Fund (CCDF) Cluster
93.600	Head Start
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, CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

Section II – Financial Statement Findings

A. Internal Control

None reported.

B. Compliance Findings

Finding No. 2014-001 – Delayed Submission of Annual Single Audit Report Package

Criteria: OMB Memorandum M-10-14 (Memorandum) clarifies that in order for the City to meet the criteria for low-risk auditee status in the current year, the prior two years' audits must have met the requirements of Circular A-133, including report submission to the Federal Audit Clearinghouse (FAC) by the due date. Per the Memorandum, a report submission is considered late if the City is not in compliance with the nine-month due date rule.

Condition: The City did not submit its Single Audit report for its fiscal year ended June 30, 2013 to the FAC within the nine-month deadline or March 31, 2014. In addition, the City will experience a similar finding for its Single Audit report for its fiscal year ended June 30, 2014 as this report was not submitted as of March 31, 2015.

Context: The Single Audit report for the City's fiscal year ended June 30, 2013 was submitted to the FAC on July 29, 2014 and was processed and accepted by the FAC on July 30, 2014 or approximately 4 months after its required March 31, 2014 due date. This was confirmed by email notification from FAC.

Effect: As the City was not in compliance with the nine-month due date of March 31, 2014, the City did not qualify as a low risk auditee for the fiscal year ended June 30, 2014, thus subjecting at least 50% of its total expenditures of federal awards for testing as major programs.

Cause: The City was not able to complete its audit for its fiscal year ended June 30, 2013 due to a hardware failure within the City's financial system. The City experienced significant difficulty recovering approximately 5 years of financial data, which required a substantial amount of the City's limited finance staff resources to conduct recovery procedures causing significant delays in annual financial reporting.

Recommendation: We recommend the City establish an effective and timely close process for its June 30, 2015 fiscal year-end so that it is not in violation of the nine-month due date requirement.

View of Responsible Officials and Planned Corrective Action: The delayed submission of our annual single audit report package was primarily due to a hardware failure within the City's financial system. The City experienced significant difficulty recovering approximately 5 years of financial data, which resulted in a substantial amount of the City's limited finance staff resources to conduct recovery procedures causing significant delays in annual financial reporting. We also experienced key staff turnover in the finance department. Over the past few months, we have taken several actions to prevent future hardware failure as follows; (1) reviewed and amended disaster recovery plan by adding a second tier recovery option, (2) purchased and tested an additional server to act as a replication server to the production environment, and (3) placed secondary replication server at a remote secured location. In regards to staff turnover, we have hired a new Finance Manager with financial audit experience to facilitate the year-end closing and audit process.

CITY OF LA HABRA, CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

Section III – Federal Award Findings and Questioned Costs

A. Internal Control

None reported.

B. Compliance Findings

None reported.

CITY OF LA HABRA, CALIFORNIA
Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2014

There were no audit findings reported for the year ended June 30, 2013.