

**CITY OF HAWAIIAN GARDENS, CALIFORNIA**

**SINGLE AUDIT OF FEDERALLY  
ASSISTED GRANT PROGRAMS**

**JUNE 30, 2016**

CITY OF HAWAIIAN GARDENS, CALIFORNIA

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INDEPENDENT AUDITORS' 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 City Council  
City of Hawaiian Gardens  
Hawaiian Gardens, 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, each major fund, and the aggregate remaining fund information of the City of Hawaiian Gardens, California (the City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 31, 2017.

**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 City'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Finding Numbers 2016-001 to 2016-003 that we consider to be significant deficiencies.

## **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 that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding Number 2016-004.

Also, we noted a certain matter that is an opportunity to improve internal controls that we reported to the City Council and management in a separate letter dated March 31, 2017.

## **City's Responses to the Findings**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

*White Nelson Dick Evans LLP*

Irvine, California  
March 31, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND ON THE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the City Council  
City of Hawaiian Gardens  
Hawaiian Gardens, California

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

We have audited the City of Hawaiian Gardens' (the City) compliance with the types of compliance requirements described in the *OMB 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, 2016. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditors' 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City'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 on 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 end June 30, 2016.

## **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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City'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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 31, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements.

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance  
(Continued)**

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*White Nelson Dick Evans LLP*

Irvine, California  
March 31, 2017

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**



CITY OF HAWAIIAN GARDENS, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2016

Federal Grantor / Pass - Through Grantor / Program	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>			
Passed through California Department of Education - Nutrition Services Division: Summer Food Service Program for Children	10.559	CNIPS 4002-SFSP-19	\$ 55,871
<u>U.S. Department of Housing and Urban Development:</u>			
Passed through County of Los Angeles Community Development Commission: Community Development Block Grants/ Entitlement Grants	14.218	70727	141,530
Direct Program: Section 8 Housing Choice Vouchers	14.871	CA136	1,281,535
Total U.S. Department of Housing and Urban Development			<u>1,423,065</u>
<u>U.S. Department of Health and Human Services.</u>			
<u>Administration for Children and Families:</u>			
Passed through Southeast Los Angeles County Workforce Investment Board: Temporary Assistance for Needy Families - Earn and Learn Program	17.258	106009	94,724
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,573,660</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

CITY OF HAWAIIAN GARDENS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2016

1. GENERAL:

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all federal financial assistance programs of the City of Hawaiian Gardens, California (the City). The City's reporting entity is defined in Note 1 of the notes to the City's financial statements. All financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies to the City is included in the accompanying Schedule. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The City was unable to obtain information on the federally-funded portion of the Earn and Learn Program (CFDA# 17.258) from the pass through granting agency and, therefore, has elected to report the entire amount of program expenditures for the year as federal expenditures.

2. BASIS OF ACCOUNTING:

The accompanying Schedule is presented using the modified accrual basis of accounting which is described in the Note 1 of the notes to the City's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and 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.

3. INDIRECT COST RATE:

The City has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

4. RELATIONSHIP TO COMPREHENSIVE ANNUAL FINANCIAL REPORT:

Amounts reported in the accompanying Schedule agree to amounts reported within the City's Comprehensive Annual Financial Report.

5. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

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

6. CONTINGENCIES:

Under the terms of federal grants, additional audits may be requested by the grantor agencies, and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

CITY OF HAWAIIAN GARDENS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2016

1. SUMMARY OF AUDITORS' RESULTS:

*Financial Statements*

Type of auditors' report issued:

- Unmodified

Internal control over financial reporting:

- Material weakness identified?  yes  no
- Significant deficiency identified?  yes  none reported  
Finding Numbers 2016-001 to 2016-003

Noncompliance material to financial statements noted:  yes  no  
Finding Number 2016-004

*Federal Awards:*

Internal control over major programs:

- Material weakness identified?  yes  no
- Significant deficiency identified?  yes  none reported

Type of auditors' report issued on compliance for major programs:

- Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?  yes  no

Identification of major programs:

CFDA Number  
14.871

Name of Federal Program or Cluster  
U.S. Department of Housing and Urban Development  
- Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee?  yes  no

CITY OF HAWAIIAN GARDENS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

For the year ended June 30, 2016

2. FINDINGS RELATING TO FINANCIAL STATEMENTS:

**SIGNIFICANT DEFICIENCIES**

Finding Number 2016-001 - Segregation of Duties

Criteria

A good system of internal control provides for a proper segregation of the accounting functions whereby no one person has access to both physical assets and the related accounting records or all phases of a transaction. The result of these types of situations is the risk that intentional or unintentional errors could be made and not be detected. One of the most critical areas of separation is cash.

Condition

We noted that the City does not have proper segregation of duties in the following areas:

1. The same employee has the ability to collect, post, reconcile, and deposit cash receipts.
2. The same employee has the ability to record disbursements, prepare checks, and control the mailing of the checks.
3. The same employee has the ability to make changes to source employee payroll information, record payroll transactions, and process payroll (via check or electronic deposit).

Cause

The size of the City's accounting staff prohibits complete adherence to the concept of segregation of duties.

Effect

There is a higher risk that errors could occur and not be detected.

CITY OF HAWAIIAN GARDENS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

For the year ended June 30, 2016

2. FINDINGS RELATING TO FINANCIAL STATEMENTS (CONTINUED):

**SIGNIFICANT DEFICIENCIES (CONTINUED)**

Finding Number 2016-001 - Segregation of Duties (Continued)

Recommendation

We recommend the implementation of the following practices to improve existing internal control without impairing efficiency:

1. Cash receipts should be deposited intact daily.
2. A daily review of the reconciliation of actual cash receipts to the accounting records should be performed by someone who is not involved with collection of the cash receipts.
3. Once checks have been signed, they should be mailed out to vendors/employees directly. They should not be returned to the person involved in processing the disbursements or to the person who initiated the check request.
4. Changes to employee payroll information should be performed by someone other than the person who processes payroll. If this is not feasible, the finance director should regularly review exception reports to verify that the changes were appropriate prior to payroll being processed.

This finding has been repeated from prior year (Finding Number 2015-001).

Views of Responsible Officials and Planned Corrective Action

The staff size continues to make segregation of duties difficult. As noted in the previous year, in order to assure that operations can be maintained, Finance employees have been granted access to all modules within the financial system and they are cross trained so that the Cash Receipts, Accounts Payable, and Payroll functions can be performed by all the employees. The main activities within each of these areas have been handled by one staff member from a procedure standpoint, but all do have the access to be able to perform those tasks. In April 2015, a full time Finance Director was hired and a review of processes and procedures was begun to determine where segregation of duties is possible and to implement additional internal controls where segregation is not possible. Filling this position with a full time employee has allowed an additional review step for the various processes. The planned addition of another Accountant will also allow for improved segregation of duties. This position is scheduled to be filled for the 17-18 fiscal year.

CITY OF HAWAIIAN GARDENS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

For the year ended June 30, 2016

2. FINDINGS RELATING TO FINANCIAL STATEMENTS (CONTINUED):

**SIGNIFICANT DEFICIENCIES (CONTINUED)**

Finding Number 2016-002 - Compensated Absences

Criteria

The Memorandum of Understanding (MOU) between the City and its employees contains a provision for a maximum vacation accrual limit of 320 hours for full-time employees.

We also noted that the MOU has a provision which states that in the third week of December each year, the two most senior employees, at their option, may cash out hours in excess of 300. Once an employee has exercised this option, they drop down to the bottom of the seniority list for purposes of this vacation cash-out option.

Condition

We noted that several employees had accrued vacation hours in excess of the City's policy limits.

We did not see any documentary evidence of the other provision being followed.

Cause

Management is not complying with the provision of the MOU.

Effect

The cost to the City for not enforcing the vacation hours limit is increased compensation liability to employees for the excess hours. This cost increases every time there is an increase in pay rates.

Recommendation

We recommend that management review its compensated absences policies and determine whether any changes are necessary. In addition, we recommend that management review and modify the related internal controls in place to ensure compliance with the compensated absences policies.

This finding has been repeated from the prior year (Finding Number 2015-002).

CITY OF HAWAIIAN GARDENS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

For the year ended June 30, 2016

2. FINDINGS RELATING TO FINANCIAL STATEMENTS (CONTINUED):

**SIGNIFICANT DEFICIENCIES (CONTINUED)**

Finding Number 2016-002 - Compensated Absences (Continued)

Views of Responsible Officials and Planned Corrective Action

Maximum Accrual Hours - Currently there are employees who have been allowed to accrue hours above the stated maximum and the City and the Union are in discussions on possible modifications to this section so that the City will be in compliance with their MOU.

Vacation Cash Outs - While the City is not following the MOU section regarding vacation cash outs, there have been cash outs opportunities. In December 2015, employees were allowed to submit requests to cash out vacation and sick leave. This section of the MOU is also being discussed between the City and the Union for possible revision to allow the City to be in compliance with the MOU.

Finding Number 2016-003 - Timeliness of Financial Reporting

Criteria

Audited financial statements are intended to meet the needs of decision makers. To accomplish this objective, audited financial statements must be available in time to make informed decisions.

Condition

This year's closing process was delayed, which resulted in issuance of the audited financial statements nine months after the end of the fiscal year.

Cause

In March 2016, the City Manager resigned and the Finance Director took on the interim City Manager position. As a result, the review and providing of supporting documents was delayed.

Effect

The issuance of the audited financial statements occurred nine months after the end of the fiscal year.

CITY OF HAWAIIAN GARDENS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

For the year ended June 30, 2016

2. FINDINGS RELATING TO FINANCIAL STATEMENTS (CONTINUED):

**SIGNIFICANT DEFICIENCIES (CONTINUED)**

Finding Number 2016-003 - Timeliness of Financial Reporting (Continued)

Recommendation

We recommend that the City develop policies and procedures for the year-end closing process to ensure the timely issuance of the audited financial statements, which typically would be within six months after the end of the fiscal year.

Views of Responsible Officials and Planned Corrective Action

In March 2016, the City Manager resigned and the Finance Director took on the interim City Manager position. The City did utilize the assistance of financial consultants to assist with the year-end close process, however, since the Finance staff is already limited by staffing size, the dual role of the Finance Director did impact the ability to complete some of the tasks needed to finalize the year end. This year there were not many post close entries but rather the review and providing of supporting documents was delayed.

**COMPLIANCE AND OTHER MATTERS FINDING**

Finding Number 2016-004 - Compliance with Senate Bill 341

Criteria

Senate Bill 341 (SB 341) requires all successor housing entities, starting with the fiscal year ended June 30, 2014, to comply with annual report requirements within six months after the end of each fiscal year. The annual report must be posted to the City's website and contain all of the required items as described in Health and Safety Code Section 34176.1 beginning with Subsection (f).

In addition, there is a requirement to report housing financial activity information to the State of California by including specified information regarding progress in the implementation of the City's Housing Element within the Annual Progress Report (APR) required to be annually submitted to California Department of Housing and Community Development (HCD) by the April 1 following the fiscal year end.



CITY OF HAWAIIAN GARDENS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

For the year ended June 30, 2016

2. FINDINGS RELATING TO FINANCIAL STATEMENTS (CONTINUED):

**COMPLIANCE AND OTHER MATTERS FINDING (CONTINUED)**

Finding Number 2016-004 - Compliance with Senate Bill 341 (Continued)

Condition

The City has prepared the required annual report for the fiscal year ended June 30, 2016; however, the City has not posted it to its website. The annual required reports for fiscal years ended June 30, 2014 and 2015 have not been prepared. In addition, these reports have not been provided to the HCD as required.

Cause

The City was not initially aware of the new requirements and staff turnover has delayed implementation.

Effect

The City is not in compliance with state law.

Recommendation

We recommend that management implement policies and procedures to ensure compliance with all required elements of SB 341 and the filing requirements of HCD in the future.

This finding has been repeated from the prior year (Finding Number 2015-005).

Views of Responsible Officials and Planned Corrective Action

The report for 15-16 has been prepared, posted on the City website, and sent to the HCD as required. Reports for previous years are being prepared and will also be posted to bring the City current and in compliance with SB 341. The preparation of this report is now included in the year-end close procedures so that it will be done timely.

3. FINDINGS AND QUESTIONED COSTS RELATING TO MAJOR FEDERAL AWARDS:

None

CITY OF HAWAIIAN GARDENS  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

For the year ended June 30, 2016

FINDINGS RELATING TO FINANCIAL STATEMENTS

**SIGNIFICANT DEFICIENCIES**

Finding Number 2015-001 - Segregation of Duties

Condition

We noted that the City does not have proper segregation of duties in the following areas:

1. The same employee has the ability to collect, post, reconcile, and deposit cash receipts.
2. The same employee has the ability to record disbursements, prepare checks, and control the mailing of the checks.
3. The same employee has the ability to make changes to source employee payroll information, record payroll transactions, and process payroll (via check or electronic deposit).

Recommendation

We recommend the implementation of the following practices to improve existing internal control without impairing efficiency:

1. Cash receipts should be deposited intact daily.
2. A daily review of the reconciliation of actual cash receipts to the accounting records should be performed by someone who is not involved with collection of the cash receipts.
3. Once checks have been signed, they should be mailed out to vendors/employees directly. They should not be returned to the person involved in processing the disbursements or to the person who initiated the check request.
4. Changes to employee payroll information should be performed by someone other than the person who processes payroll. If this is not feasible, the finance director should regularly review exception reports to verify that the changes were appropriate prior to payroll being processed.

Current Status

This finding has been repeated in fiscal year 2015-16 and is reported as Finding Number 2016-001.

CITY OF HAWAIIAN GARDENS

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
(CONTINUED)

For the year ended June 30, 2016

FINDINGS RELATING TO FINANCIAL STATEMENTS (CONTINUED)

**SIGNIFICANT DEFICIENCIES (CONTINUED)**

Finding Number 2015-002 - Compensated Absences

Condition

We noted that several employees had accrued vacation hours in excess of the City's policy limits. We did not see any documentary evidence of the other provision being followed.

Recommendation

We recommend that management review its compensated absences policies and determine whether any changes are necessary. In addition, we recommend that management review and modify the related internal controls in place to ensure compliance with the compensated absences policies.

Current Status

This finding has been repeated in fiscal year 2015-16 and is reported as Finding Number 2016-002.

Finding Number 2015-003 - Loan Receivable Monitoring

Condition

During our review of the detailed schedule of HOME loans receivable, we noted one instance where a loan appears to have passed the maturity date of the note and there was no documentation as to follow up on this loan. HOME loans are secured by the property and are due upon the earlier of 1) the note maturity, or 2) the sale or transfer of the property. In addition, during our review of the detailed schedule of CDBG loans, we noted one instance where a loan was written off and then later reinstated with no documentation as to what transpired.

Recommendation

We recommend that the City monitor the work of the outside company to determine what impacts there might be on the City's loans receivable balances. If there is a question about collectability for any of the outstanding loans receivable, an allowance should be recorded against the note receivable in the City's general ledger.

Current Status

This finding has been corrected.

CITY OF HAWAIIAN GARDENS  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
(CONTINUED)

For the year ended June 30, 2016

FINDINGS RELATING TO FINANCIAL STATEMENTS (CONTINUED)

**SIGNIFICANT DEFICIENCIES (CONTINUED)**

Finding Number 2015-004 - On-Line Vendor Payments

Condition

We noted that these transactions are not being recorded in the general ledger until several weeks after they had occurred.

Recommendation

We recommend that the City establish procedures to ensure the timely recording of on-line vendor payments.

Current Status

This finding has been corrected.

**COMPLIANCE AND OTHER MATTERS**

Finding Number 2015-005 - Compliance with Senate Bill 341

Condition

The City did not post the required annual report for the fiscal year ended June 30, 2014 as it applies to the City.

Recommendation

We recommend that management implement policies and procedures to ensure compliance with all required elements of SB 341 in the future.

Current Status

This finding has been repeated in fiscal year 2015-16 and is reported as Finding Number 2016-004.

CITY OF HAWAIIAN GARDENS

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
(CONTINUED)

For the year ended June 30, 2016

FINDINGS AND QUESTIONED COSTS RELATED TO MAJOR FEDERAL AWARDS:

Finding Number 2015-006

Federal Programs

United States Department of Housing and Urban Development, Community Development Block Grants (CFDA No. 14.218), Grant Number: 70727 and 107744

United States Department of Housing and Urban Development, HOME Investment Partnership Program (CFDA No. 14.239), Grant Number: Unknown

Significant Deficiency

As discussed at Finding Number 2015-003, loans receivable balances related to federally funded home improvement loan programs are not being monitored regularly. Because of the lack of monitoring, loans receivable general ledger balances may not be fairly stated and the loans may not be entirely collectible. Procedures need to be implemented to regularly communicate with the outside company contracted to monitor such loans and to review the outside company's reports for reasonableness and consistency with the City's general ledger.

Current Status

This finding has been corrected.

The Honorable Mayor, Members of  
City Council, and Management  
of the City of Hawaiian Gardens  
Hawaiian Gardens, California

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Hawaiian Gardens, California (the City) as of and for the year ended June 30, 2016, 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, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weakness and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control that we consider to be significant deficiencies that were communicated to the City Council in a separate letter dated March 31, 2017. In addition, as discussed below, we identified a certain other matter involving internal control and operational matters that is presented for your consideration. This letter does not affect our report dated March 31, 2017, on the financial statements of the City. Our comment and recommendation, which has been discussed with appropriate members of management, is intended to improve the internal control or result in other operating efficiencies. Our comment is summarized as follows:

## **Investments**

### Auditors' Comment and Recommendation

We noted that the City's investment policy calls for the periodic review of the investment policy to reflect changes in State laws, general market conditions or to provide further clarification. It also calls for an annual rendering of the investment policy to the City Council at a public meeting for their consideration. It is our understanding that the investment policy has not been presented to the City Council in a public meeting in over one year.

## **Investments (Continued)**

### Auditors' Comment and Recommendation (Continued)

We also noted that the City has invested funds with the California Local Agency Investment Fund (LAIF). LAIF is an authorized investment under the California Government Code, however, the City's investment policy does not specifically list LAIF as an authorized investment of the City. We recommend that management establish policies and procedures to ensure compliance with the City's investment policy. Furthermore, we recommend that the City add LAIF to the list of authorized investments in the City's investment policy the next time the investment policy is presented to City Council for approval.

### Management's Response

The Investment Policy will be taken to the City Council for approval this year as part of the budget cycle and it will be updated to include language regarding the use of LAIF for investment of funds.

The City's response to the finding identified in the audit is described above. The City's response was not subjected to the auditing procedures applied in the audit of financial statements and, accordingly, we express no opinion on the response.

This communication is intended solely for the information and use of management, the City Council, and others within the City, and is not intended to be, and should not be, used by anyone other than these specified parties.

*White Nelson Dick Evans LLP*

Irvine, California  
March 31, 2017



# City of Hawaiian Gardens, California

21815 Pioneer Blvd  
Hawaiian Gardens, Ca 90716

Phone: 562-420-2641  
Fax: 562-496-3708

## CORRECTIVE ACTION PLAN

### In Response to Findings Relating to the Financial Statements and to the Schedule of Findings and Questioned Costs Year Ended June 30, 2016

March 31, 2017

City of Hawaiian Gardens respectfully submits the following corrective action plan for the year ended June 30, 2016.

Name and address of independent public accounting firm:

White Nelson Diehl Evans LLP  
2875 Michelle Drive Suite 300  
Irvine, CA. 92606

Audit Period: July 1, 2015 – June 30, 2016

The findings from the fiscal year 2015-16 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

#### FINDINGS –FINANCIAL STATEMENT AUDIT

#### SIGNIFICANT DEFICIENCIES:

#### 2016-001 TITLE OF FINDING - Segregation of Duties

##### Recommendation:

We recommend the implementation of the following practices to improve existing internal control without impairing efficiency:

1. Cash receipts should be deposited intact daily.
2. A daily review of the reconciliation of actual cash receipts to the accounting records should be performed by someone who is not involved with collection of the cash receipts.
3. Once checks have been signed, they should be mailed out to vendors/employees directly. They should not be returned to the person involved in processing the disbursements or to the person who initiated the check request.
4. Changes to employee payroll information should be performed by someone other than the person who processes payroll. If this is not feasible, the finance director should regularly review exception reports to verify that the changes were appropriate prior to payroll being processed.



**Action Taken**

1. Cash is posted to the GL daily and using an Electronic Deposit System checks are deposited to the bank weekly or more frequently as time permits. Cash is taken to the bank weekly or as needed to maintain a limited amount of cash at the City. Cash is locked in a secure cabinet until it is deposited in the bank.
2. The Finance Department is still planning to add an additional staff member and is currently recruiting. The addition of this position was delayed until a budget amendment was completed. The daily cash is reviewed and reconciled by the Accounting Specialist. This position does limited cash entry so provides an independent review of the cash postings.
3. The review and mailing of AP checks during the 15-16 period was still mainly handled by the person who processes AP, however the Staff Assistant at the front desk is being trained to take on this task.
4. Staff size continues to make the segregation of the payroll entry from the payroll processing individual. When the new position is added an additional review of these changes will be included as part of the payroll process.

**2016-002 TITLE OF FINDING - Compensated Absences****Recommendation:**

We recommend that management review its compensated absences policies and determine whether any changes are necessary. In addition, we recommend that management review and modify the related internal controls in place to ensure compliance with the compensated absences policies.

**Action Taken**

Maximum Accrual Hours – There continues to be employees with balances in excess of the maximum allowed per the MOU. The City and the Union are in discussions on possible modifications to this section so that the City will be in compliance with their MOU.

Vacation Cash Outs - While the City is not following the MOU section regarding vacation cash outs, there have been cash outs opportunities. In December 2015, all employees were allowed to submit request to cash out vacation and sick leave. The City and the Union have been continuing discussions on ways to modify this section of the MOU to align it with the actual practice.

**2016-003 TITLE OF FINDING- Timeliness of Financial Reporting****Recommendation:**

We recommend that the City develop policies and procedures for the year-end closing process to ensure the timely issuance of the audited financial statements, which typically would be within six months after the end of the fiscal year.

**Action Taken:**

The Finance Department does have year-end close procedures however, in March 2016 the City Manger resigned and the Finance Director assumed the role of Interim City Manager. While financial consultants were used to assist, the dual role did impact the time required to complete the audit process. There were not many post close entries but rather review and the providing of supporting

documents were delayed. A City Manager has been hired and the Finance Director has again assumed the full responsibility of that role.

## **COMPLIANCE AND OTHER MATTERS FINDING**

### **2016-004 – Compliance with Senate Bill 341**

#### **Recommendation:**

We recommend that the City implement policies and procedures to ensure compliance with all required elements of SB 341 and the filing requirement of HCD in the future.

#### **Action Taken:**

The City has prepared the report for 15-16, posted it on the website and submitted it to HCD as required. To bring the City into compliance for previous years these reports will also be prepared and posted as required. This item has been added to the yearend procedures to assure compliance in future years.

For any questions regarding this plan, please call Linda Hollinsworth at 562-420-2641 Ext 236

Sincerely,



Linda Hollinsworth  
Finance Director