

CITY OF HAWAIIAN GARDENS, CALIFORNIA

**SINGLE AUDIT OF FEDERALLY
ASSISTED GRANT PROGRAMS**

JUNE 30, 2017

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, 2017, 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 7, 2018.

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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency, described in the accompanying schedule of findings and questioned costs as Finding Number 2017-001, to be a material weakness.

Internal Control over Financial Reporting (Continued)

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 the accompanying schedule of findings and questioned costs as Finding Numbers 2017-002 to 2017-003 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 2017-004.

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 Nick Evans LLP

Irvine, California
March 7, 2018

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, 2017. 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, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Finding Numbers 2017-005 and 2017-006. Our opinion on each major federal program is not modified with respect to these matters.

The City's responses to the noncompliance 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 compliance and, accordingly, we express no opinion on the responses.

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.

Report on Internal Control over Compliance (Continued)

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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 7, 2018, 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 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 7, 2018

**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, 2017

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	\$ 46,790
<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	Contract #108571	115,412
Direct Program: Section 8 Housing Choice Vouchers	14.871	CA136	1,315,743
Total U.S. Department of Housing and Urban Development			1,431,155
<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	57,556
<u>U.S. Department of Transportation</u>			
Passed through the California Department of Transportation	20.205	STPL-5387(011)	310,588
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,846,089

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, 2017

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 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, 2017

1. SUMMARY OF AUDITORS' RESULTS:

Financial Statements

Type of auditors' report issued:

- Unmodified

Internal control over financial reporting:

- Material weakness identified? x yes no
Finding Number 2017-001
- Significant deficiency identified? x yes none reported
Finding Numbers 2017-002 to 2017-003

Noncompliance material to financial statements noted: x yes no
Finding Number 2017-004

Federal Awards:

Internal control over major programs:

- Material weakness identified? yes x no
- Significant deficiency identified? yes x 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)?? x yes no
Finding Numbers 2017-005 and 2017-006

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.871	U.S. Department of Housing and Urban Development - Section 8 Housing Choice Vouchers
20.205	U.S. Department of Transportation - Highway Planning and Construction

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

Auditee qualified as low-risk auditee? x yes no

CITY OF HAWAIIAN GARDENS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2017

2. FINDINGS RELATING TO FINANCIAL STATEMENTS:

MATERIAL WEAKNESS

Finding Number 2017-001 – Remittance to County of Proceeds from Successor Agency Property Sales

Criteria

Proceeds from the sale of properties, identified in the Successor Agency's State-Approved Long Range Property Management Plan with a recommendation to sell, are required to be remitted to the County of Los Angeles in order to be disbursed to the affected taxing agencies as part of the dissolution process of the former redevelopment agency to the City of Hawaiian Gardens.

Condition

The Successor Agency sold multiple properties during the course of current year; however, as of June 30, 2017, the proceeds had not yet been remitted to the County. Also, a liability for the remittance of the sale proceeds to the County was not recorded in the general ledger.

Cause

Successor Agency is working to ensure the sale proceeds are utilized and/or allocated in accordance with any legal restrictions on the use of the proceeds.

Effect

There is a delay in the affected taxing agencies receiving their allocation of the sales proceeds.

Views of Responsible Officials and Planned Corrective Action

The City has not submitted the monies from the sale of the properties pending a review of the recommendations contained in the Long Range Property Management Plan. City records indicate the subject properties were acquired by the former redevelopment agency for affordable housing purposes, and the Successor Agency is working to ensure the sale proceeds are utilized and/or allocated in accordance with any legal restrictions on the use of the proceeds. This matter has been brought to the attention of the California Department of Finance, and resolution is still pending. The sales were recorded correctly however the liability was not booked. Final accounting of these fund will reflect any resolution reached with the Department of Finance. When the review of the recommendations is completed and/or resolved with the Department of Finance, the City will distribute funds as appropriate. The liability has now been recorded.

CITY OF HAWAIIAN GARDENS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2017

2. FINDINGS RELATING TO FINANCIAL STATEMENTS (CONTINUED):

SIGNIFICANT DEFICIENCIES

Finding Number 2017-002 - Segregation of Duties (Continued)

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.

Condition

One employee has the ability to make changes to source employee payroll information, record payroll transactions, and process payroll (via check or electronic deposit). This condition has been repeated from prior year (Finding Number 2016-001).

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.

Recommendation

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.

Views of Responsible Officials and Planned Corrective Action

Additional staff has been hired during the 2017-2018 fiscal year and steps are being taken to segregate the responsibility of entering payroll information from the payroll processing.

CITY OF HAWAIIAN GARDENS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2017

2. FINDINGS RELATING TO FINANCIAL STATEMENTS (CONTINUED):

SIGNIFICANT DEFICIENCIES (CONTINUED)

Finding Number 2017-003 – Budgetary Controls

Criteria

The budgetary process functions as a control on management and normally imposes legal restraints on spending. Management must be in a position to ensure budgetary compliance. Management must be able to determine on an ongoing basis the balance of resources available for spending for a given purpose.

Condition

We noted three instances where a budget amendment for estimated revenues and appropriations related to City Council approved agreements was either not recorded correctly in the general ledger or was not recorded at all.

Cause

There was a lack of monitoring controls to ensure that the budget was amended to reflect approved City Council actions related to estimated revenues and appropriations.

Effect

The effect was inaccurate budgetary reporting which might have resulted in management making incorrect financial decisions.

Recommendation

We recommend that management review the budgetary control process and make the necessary changes to ensure that Council-approved transactions are accurately reflected in the general ledger budgetary information.

Views of Responsible Officials and Planned Corrective Action

Additional staff has been hired during the 2017-2018 fiscal year and procedures have been implemented to ensure all approved budget changes are reflected in the Fund Balance system.

CITY OF HAWAIIAN GARDENS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2017

2. FINDINGS RELATING TO FINANCIAL STATEMENTS (CONTINUED):

COMPLIANCE AND OTHER MATTERS FINDING

Finding Number 2017-004 - 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.

Condition

The City still has not provided the APR to HCD by the April 1 due date for fiscal years ended June 30, 2014, 2015, and 2016. This finding has been repeated from the prior year (Finding Number 2016-004).

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.

Views of Responsible Officials and Planned Corrective Action

Reports for FY 15-16 and 16-17 have been posted to the website. The reports for FY 13-14 and 14-15 will be processed and posted before March 31, 2018. All reports will also be submitted to HCD.

CITY OF HAWAIIAN GARDENS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2017

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

Finding Number 2017-005 – Noncompliance - Documentary Evidence of Rent Reasonableness Determination

Federal Program

United States Department of Housing and Urban Development, Housing Choice Voucher (CFDA No. 14.871), Grant Number: CA136

Criteria

Public Housing Authorities must maintain records to document the basis for the determination that rent to owner is a reasonable rent at time of initial leasing and, during the term of the contract, before any increase in the rent to owner and at the contract anniversary if the Fair Market Rent in effect 60 days prior to the contract anniversary has decreased by at least 5%.

Condition

We noted 2 out of 13 tenant files that lacked direct documentary evidence that the rent reasonableness analysis was performed at the time of the increase to the contract rents.

Questioned Costs

No question costs were noted.

Perspective Information

124 tenants are managed under this grant program.

Cause

The staff did not include a copy of the rent reasonableness determination documentation in the tenant file or that documentation was misplaced.

Effect

There is no direct documentary evidence that corroborates that the rent reasonableness determination was performed in a timely manner.

CITY OF HAWAIIAN GARDENS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2017

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

Finding Number 2017-005 – Noncompliance - Documentary Evidence of Rent Reasonableness
Determination (Continued)

Recommendation

We recommend that management implement procedures to ensure that the rent reasonableness determination is appropriately documented at time of performance.

Views of Responsible Officials and Planned Corrective Action

The test was performed prior to the rent increase, however the original documentation was misplaced and staff had to reprint the form to support this testing. Once these tests are entered into the system they are retained so it is just a matter of reprinting them. The date modified on the Form HUD-50058 reflects the actual date of the testing.

Finding Number 2017-006 – Noncompliance - General Depository Agreement

Federal Programs

United States Department of Housing and Urban Development, Housing Choice Voucher (CFDA No. 14.871), Grant Number: CA136

Criteria

Public Housing Authorities are required by HUD to enter into depository agreement with their financial institution.

Condition

Staff was unable to provide a copy of the general depository agreement with the financial institution that maintains the Housing Choice Voucher Program's operating account.

Questioned Costs

No question costs were noted.

CITY OF HAWAIIAN GARDENS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2017

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

Finding Number 2017-006 – Noncompliance - General Depository Agreement (Continued)

Perspective Information

The account was established at the start of the Housing Choice Voucher Program which occurred many decades ago. The financial institution was also unable to provide a copy of the document.

Effect

The City is not in compliance with this grant documentation requirement.

Recommendation

We recommend that management work with the financial institution to produce a General Depository Agreement.

Views of Responsible Officials and Planned Corrective Action

Management will obtain a new agreement.

CITY OF HAWAIIAN GARDENS

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

For the year ended June 30, 2017

FINDINGS RELATING TO FINANCIAL STATEMENTS

SIGNIFICANT DEFICIENCIES

Finding Number 2016-001 - 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

Conditions one and two have been corrected. Condition three has been repeated in the current year (Finding Number 2017-002).

CITY OF HAWAIIAN GARDENS

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

For the year ended June 30, 2017

FINDINGS RELATING TO FINANCIAL STATEMENTS (CONTINUED):

SIGNIFICANT DEFICIENCIES (CONTINUED)

Finding Number 2016-002 - 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 corrected.

Finding Number 2016-003 - Timeliness of Financial Reporting

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.

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.

Current Status

This finding has been corrected.

CITY OF HAWAIIAN GARDENS

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

For the year ended June 30, 2017

FINDINGS RELATING TO FINANCIAL STATEMENTS (CONTINUED):

COMPLIANCE AND OTHER MATTERS FINDING

Finding Number 2016-004 - Compliance with Senate Bill 341

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.

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.

Current Status

This finding has been repeated in the current year (Finding Number 2017-004).

FINDINGS AND QUESTIONED COSTS RELATED TO MAJOR FEDERAL AWARDS:

None noted.

CITY OF HAWAIIAN GARDENS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2017

2. FINDINGS RELATING TO FINANCIAL STATEMENTS:

MATERIAL WEAKNESS

Finding Number 2017-001 – Remittance to County of Proceeds from Successor Agency Property Sales

Criteria

Proceeds from the sale of properties, identified in the Successor Agency's State-Approved Long Range Property Management Plan with a recommendation to sell, are required to be remitted to the County of Los Angeles in order to be disbursed to the affected taxing agencies as part of the dissolution process of the former redevelopment agency to the City of Hawaiian Gardens.

Condition

The Successor Agency sold multiple properties during the course of current year; however, as of June 30, 2017, the proceeds had not yet been remitted to the County. Also, a liability for the remittance of the sale proceeds to the County was not recorded in the general ledger.

Cause

Successor Agency is working to ensure the sale proceeds are utilized and/or allocated in accordance with any legal restrictions on the use of the proceeds.

Effect

There is a delay in the affected taxing agencies receiving their allocation of the sales proceeds.

Recommendation

Establish controls to ensure that a liability due to the County is recorded immediately upon receipt of the sale proceeds and to remit the sale proceeds to the County as soon as practical after receipt.

Views of Responsible Officials and Planned Corrective Action

The City has not submitted the monies from the sale of the properties pending a review of the recommendations contained in the Long Range Property Management Plan. City records indicate the subject properties were acquired by the former redevelopment agency for affordable housing purposes, and the Successor Agency is working to ensure the sale proceeds are utilized and/or allocated in accordance with any legal restrictions on the use of the proceeds. This matter has been brought to the attention of the California Department of Finance, and resolution is still pending. The sales were recorded correctly however the liability was not booked. Final accounting of these fund will reflect any resolution reached with the Department of Finance. When the review of the recommendations is completed and/or resolved with the Department of Finance, the City will distribute funds as appropriate. The liability has now been recorded.

CITY OF HAWAIIAN GARDENS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2017

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

Finding Number 2017-006 – Noncompliance - General Depository Agreement (Continued)

Perspective Information

The account was established at the start of the Housing Choice Voucher Program which occurred many decades ago. The financial institution was also unable to provide a copy of the document.

Cause

The General Depository Agreement was misplaced and could not be located.

Effect

The City is not in compliance with this grant documentation requirement.

Recommendation

We recommend that management work with the financial institution to produce a General Depository Agreement.

Views of Responsible Officials and Planned Corrective Action

Management will obtain a new agreement.