

City of Hawaiian Gardens
Single Audit Report on Schedule of Expenditures of Federal Awards
June 30, 2018



An Independent CPA Firm

CITY OF HAWAIIAN GARDENS
Single Audit Report on Schedule of Expenditures of Federal Award Programs
June 30, 2018

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An Independent CPA Firm

Honorable Mayor and City Council
City of Hawaiian Gardens
Hawaiian Gardens, California

**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**

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 City of Hawaiian Gardens, California (City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City of Hawaiian Gardens' basic financial statements, and have issued our report thereon dated December 5, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Hawaiian Gardens' 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 City of Hawaiian Gardens' internal control. Accordingly, we do not express an opinion on the effectiveness of City of Hawaiian Gardens' 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hawaiian Gardens' 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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying *schedule of findings and questioned costs* as item 2018-01.

City's Response to Finding

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

David L. Gruber and Associates, Inc.

David L. Gruber and Associates, Inc.

Newport Beach, California
December 5, 2018

Honorable Mayor and City Council
City of Hawaiian Gardens
Hawaiian Gardens, California

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Report on Compliance for Each Major Federal Program

We have audited the City of Hawaiian Gardens, California (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, 2018. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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.

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 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 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, 2018.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance.

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.

Honorable Mayor and City Council
City of Hawaiian Gardens

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

We have audited the financial statements of the City as of and for the year ended June 30, 2018, and have issued our report thereon dated December 5, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

The 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

David L. Gruber and Associates, Inc.

David L. Gruber and Associates, Inc.

Newport Beach, California
December 5, 2018

CITY OF HAWAIIAN GARDENS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Grantor/ Pass-through Grantor/Program	Federal Domestic Assistance Number	Program Identification Number	Federal Award Expenditures	Payments To Subrecipients
U.S. Department of Housing and Urban Development:				
<i>Direct Program:</i>				
Section 8 Housing Choice Vouchers	14.871	CA136	\$ 1,274,695 *	-
<i>Passed through the County of Los Angeles - Community Development Commission:</i>				
Community Development Block Grants/ Entitlement Grants	14.218	108571	<u>298,755</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development			<u>1,573,450</u>	<u>-</u>
U.S. Department of Agriculture:				
<i>Passed through State of California- Department of Education-Nutrition Division:</i>				
Summer Food Service Program for Children	10.559	CNIPS 4002-SFSP-19	<u>37,271</u>	<u>-</u>
Total U.S. Agriculture			<u>37,271</u>	<u>-</u>
U.S. Department of Health and Human Services:				
<i>Passed through Southeast Los Angeles County- Work Investment Board:</i>				
Temporary Assisitance for Needy Families- Earn and Learn Program	17.258	106009	<u>116,488</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>116,488</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 1,727,209</u>	<u>-</u>

* Denotes major program.

CITY OF HAWAIIAN GARDENS

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2018

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

The financial reporting entity, as defined by Governmental Accounting Standard Board (GASB), consists of the primary government, which is the City of Hawaiian Gardens, California (City), entities for which the primary government is financially accountable, and other entities for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The City Council acts as the governing body and is able to impose its will on the following entities by establishing financial accountability:

- Hawaiian Gardens Public Financing Authority
- Housing Authority of the City of Hawaiian Gardens
- City of Hawaiian Gardens Civic League

(a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the City of Hawaiian Gardens (City) that are reimbursable under federal programs of federal agencies providing financial assistance. For purposes of this schedule, financial assistance includes both federal financial assistance received directly from a federal agency and expended, as well as federal funds received indirectly by City of Hawaiian Gardens' from a non-federal agency and expended. Only the portion of program expenditures reimbursable with such federal funds are reported in the accompanying schedule. Program expenses in excess of the maximum federal reimbursement authorized or the portion of program expenses that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

(b) Basis of Accounting

Funds received under the various grant programs have been recorded within the general fund and special revenue funds of the City. The City utilizes the modified accrual basis of accounting for governmental funds. The accompanying schedule of expenditures of federal awards 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* (Office of Management and Budget Uniform Grant Guidance).

(c) De Minimus Indirect Cost Rate

The City elected to use the 10% de minimus indirect cost rate for the year ended June 30, 2018, however, no indirect cost rates were charged to any federal programs .

(d) Subrecipients

There were no payments to subrecipients for the year ended June 30, 2018.

CITY OF HAWAIIAN GARDENS
Schedule of Findings and Questioned Costs
Year ended June 30, 2018

Summary of Auditors' Results

A) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

1. An unmodified report was issued by the auditors on the financial statements of the auditee.
2. There were no material weaknesses in internal control nor were there any significant deficiencies.
3. The audit disclosed one instance of noncompliance which is material to the financial statements of the auditee which is described in the accompanying *schedule of findings and questioned costs* as item 2018-01.

(B) Findings and Questioned Costs for Federal Awards as Defined in 2 CFR 200.515(d)

4. There were no material weaknesses or significant deficiencies in internal control over federal major programs of the auditee.
5. An unmodified report was issued by the auditors on compliance for federal major programs.
6. The audit disclosed no audit findings of federal awards required by the auditors to be reported under 2 CFR 200.515(d)
7. The major federal program of the auditee was the: (1) CFDA#14.871 U.S. Department of Housing and Urban Development – Section 8 Housing Choice Vouchers.
8. The dollar threshold used to distinguish Type A and Type B programs was \$750,000 under 2 CFR 200.518 (b) (1).
9. The auditee was not considered a low risk auditee as defined by 2 CFR 200.518 for the year ended June 30, 2018 for purposes of determining major programs.

CITY OF HAWAIIAN GARDENS

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

2018-01 **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 the current year and prior year; however, as of June 30, 2018, the proceeds had not yet been remitted to the County. Furthermore, appraisals were not done on the properties before the sales took place.

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: We recommend the Successor Agency resolve the property sale proceeds issue with the California Department of Finance. It should be noted that a liability was booked for the entire sales proceeds in the Successor Agency's Private Purpose Trust fund. We further recommend that appraisals be performed on future properties planning to be sold and that the appraisals be included in the City Councils' approval resolution.

Management's Response: 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. Final accounting of these funds 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.

CITY OF HAWAIIAN GARDENS

Summary Schedule of Prior Year (June 30, 2017) Audit Findings

Year ended June 30, 2018

2017-01 **Remittance to County of Proceeds from Successor Agency Property Sales**

Prior Year Finding: The Successor Agency sold multiple properties during the course of current year; however, as of June 30, 2018, the proceeds had not yet been remitted to the County.

Current Year Results: Finding was not resolved and was repeated in the current year accompanying *schedule of findings and questioned costs* as item 2018-01.

2017-02 **Segregation of Duties**

Prior Year Finding: One employee has the ability to make changes to source employee payroll information, record payroll transactions, and process payroll (via check or electronic deposit).

Current Year Results: Finding was resolved. Additional staff were hired in the current year and now three people are involved in payroll processing.

2017-03 **Budgetary Controls**

Prior Year Finding: Three instances were noted by the previous auditors 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.

Current Year Results: Finding was resolved. No unrecorded or erroneously recorded budgetary amendments were noted in the current year.

2017-04 **Compliance with Senate Bill 341**

Prior Year Finding: The City still has not provided the Annual Progress Report (APR) to the California Department of Housing and Community Development (HCD) by the April 1 due date for fiscal years ended June 30, 2014, 2015, and 2016 in accordance with Senate Bill 341 (SB 341) .

Current Year Results: Finding was resolved. All APR reports have been filed with the HCD through June 30, 2017 in accordance with SB 341.

CITY OF HAWAIIAN GARDENS

Summary Schedule of Prior Year (June 30, 2017) Audit Findings

(continued)

2017-05 **Single Audit -Section 8 Housing Choice Vouchers Program-Rent Reasonableness**

Prior Year Single Audit Finding: The previous auditors 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.

Current Year Results: Matter was resolved. Rent reasonableness forms were provided for all tenant files tested.

2017-06 **Single Audit -Section 8 Housing Choice Vouchers Program-Depository Agreement**

Prior Year Single Audit Finding: City 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 in accordance with HUD Section 8 Compliance Supplement.

Current Year Results: Finding was resolved. A depository agreement was provided that was in accordance with HUD requirements.