

CITY OF LA HABRA
Single Audit Report
For the Year Ended June 30, 2012

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of La Habra, California (City), as of and for the year ended June 30, 2012, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated June 10, 2013. Our report included an emphasis of a matter regarding the dissolution of redevelopment agencies in the State of California and the City’s responsibility as the Successor Agency to the Redevelopment Agency of the City of La Habra. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management and others within the City, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Macias Fini & O'Connell LLP

Newport Beach, California
June 10, 2013

**Independent Auditor’s Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on
Internal Control Over Compliance in Accordance with OMB Circular A-133**

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

Compliance

We have audited the City of La Habra’s, California (City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City’s major federal programs for the year ended June 30, 2012. The City’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City’s management. Our responsibility is to express an opinion on the City’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City’s compliance with those requirements.

As described in item 2012-1 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding reporting that is applicable to its Community Development Block Grants - Entitlement Grants Cluster. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiency, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-1 to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2012, and have issued our report thereon dated June 10, 2013, which contained an unqualified opinion on those financial statements. Our report included an emphasis of a matter regarding the dissolution of redevelopment agencies in the State of California and the City's responsibility as the Successor Agency to the Redevelopment Agency of the City of La Habra. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and related 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 City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the City Council, management and others within the City, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Macias Fini & O'Connell LLP

Newport Beach, California

June 10, 2013

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CITY OF LA HABRA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Federal Grantor/ Pass-through Grantor Program Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Subrecipients
U.S. Department of Agriculture				
Passed through State of California Department of Education:				
Child and Adult Care Food Program	10.558	04320-CACFP-30-GM-CS	\$ 267,885	\$ -
Child and Adult Care Food Program	10.558	04320-CACFP-30-GM-DCH	1,525,469	1,292,998
Total Child Care and Adult Care Food Program Grants			1,793,354	1,292,998
Total U.S. Department of Agriculture			1,793,354	1,292,998
U.S. Department of Housing and Urban Development				
Direct programs:				
Community Development Block Grants/Entitlement Grants	14.218	B-06-MC-06-0582	17,406	17,406
Community Development Block Grants/Entitlement Grants	14.218	B-07-MC-06-0582	10,688	10,688
Community Development Block Grants/Entitlement Grants	14.218	B-09-MC-06-0582	11,058	6,866
Community Development Block Grants/Entitlement Grants	14.218	B-10-MC-06-0582	114,210	2,385
Community Development Block Grants/Entitlement Grants	14.218	B-11-MC-06-0582	977,763	74,245
Total Community Development Block Grants/Entitlement Grants - non-ARRA			1,131,125	111,590
Community Development Block Grant ARRA Entitlement Grants (CDBG-R)(Recovery Act Funded)	14.253	B-09-MY-06-0582	65,120	-
Total Community Development Block Grants/Entitlement Grant Cluster			1,196,245	111,590
Total U.S. Department of Housing and Urban Development			1,196,245	111,590
U.S. Department of Justice				
Direct Programs:				
Bulletproof Vest Partnership Program	16.607	2009BUBX04023483	6,358	-
Bulletproof Vest Partnership Program	16.607	2011BUBX11057996	920	-
Total Bulletproof Vest Partnership Program			7,278	-
Passed through County of Orange:				
Edward Byrne Memorial Justice Assistance Grant - 2009	16.738	2009-DJ-BX-0033	20,385	-
Edward Byrne Memorial Justice Assistance Grant - 2010	16.738	2010-DJ-BX-0324	16,705	-
Edward Byrne Memorial Justice Assistance Grant - 2011	16.738	2011-DJ-BX-2532	14,357	-
Edward Byrne Memorial Justice Assistance Grant: 2011 Anti-Drug Abuse Enforcement Program	16.738	DC-11-22-0300	60,000	-
Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program / Grants To Units Of Local Government - ARRA	16.804	2010-DJ-BX-0324	3,727	-
Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program / Grants To Units Of Local Government - ARRA	16.804	2009-SB-B9-0271	5,895	-
Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program / Grants To Units Of Local Government - ARRA	16.804	ZA-09-01-0300	18,873	-
Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program / Grants To Units Of Local Government - ARRA (Calmmet)	16.804	ZM-09-01-0300	262	-
Total Edward Byrne Memorial Justice Assistance Grant Cluster			140,204	-
Equitable Sharing Program	16.922	N/A	4,360	-
Total U.S. Department of Justice			151,842	-
U.S. Department of Labor				
Passed through County of Orange Community Services Agency:				
Workforce Investment Act (WIA) Youth Activities Program Northern Region: In-School Youth Program	17.259	55-21-12	161,707	-
Out-of-School Youth Program	17.259	55-20-12	248,073	-
Total U.S. Department of Labor			409,780	-

(Continued)

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

CITY OF LA HABRA
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2012

Federal Grantor/ Pass-through Grantor Program Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Subrecipients
U.S. Department of Transportation				
Passed through University of California at Berkeley:				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated - Sobriety Checkpoint Mini-Grant Program 2010-11	20.608	SC11202	\$ 18,865	\$ -
Passed through Anaheim Police Department:				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated - AVOID the 26 DUI Campaign - OC	20.608	20656	2,832	-
Passed through La Habra Police Department:				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated - Selective Traffic Enforcement Program	20.608	20062	145,821	-
Total U.S. Department of Transportation			<u>167,518</u>	<u>-</u>
Institute of Museum and Liabrary Services				
Direct Program:				
Museums for America	45.301	MA-04-11-0258-11	52,491	-
Total Institute of Museum and Liabrary Services			<u>52,491</u>	<u>-</u>
U.S. Department of Energy				
Direct Program:				
Energy Efficiency and Conservation Block Grant - ARRA	81.128	SC0002176	108,250	-
Total U.S. Department of Energy			<u>108,250</u>	<u>-</u>
U.S. Department of Education				
Direct Program:				
Arts in Education - Young at Art (K-2)	84.351D	U351D090026	124,055	-
Fund for the Improvement of Education - Young at Art (3-5)	84.215K	U215K100101	11,191	-
Total U.S. Department of Education			<u>135,246</u>	<u>-</u>
U.S. Department of Health and Human Services				
Passed through California State Department of Education:				
Child Care and Development Fund (CCDF) Cluster:				
Child Care and Development Block Grant	93.575	CCTR-1178/ CSPP-1337	152,987	16,600
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	CCTR-1178/ CSPP-1337	277,897	30,433
Total CCDF Cluster			<u>430,884</u>	<u>47,033</u>
Passed through Orange County Head Start:				
Head Start - non-ARRA	93.600	09-CH007-31	1,479,343	-
Early Head Start - ARRA	93.709	09-SA-0007-02	68,377	-
Total Head Start Cluster			<u>1,547,720</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>1,978,604</u>	<u>47,033</u>
U.S. Department of Homeland Security				
Passed through California Emergency Management Agency:				
Emergency Management Performance Grant Program	97.042	2011-0048	13,802	-
Emergency Operations Center	97.052	2010-EO-MX-0016	199,580	-
Total U.S. Department of Homeland Security			<u>213,382</u>	<u>-</u>
Total Federal Expenditures			<u>\$ 6,206,712</u>	<u>\$ 1,451,621</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

CITY OF LA HABRA
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of La Habra and is presented on the modified accrual basis of accounting as described in Note (1)(c) of the City's basic financial statements. The information in this schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

(2) Relationship to Federal Financial Reports

Amounts reported in the accompanying Schedule agree, or can be reconciled with, amounts reported in the related federal award reports.

(3) Relationship to Basic Financial Statements

Federal award expenditures agree, or can be reconciled with, the amounts reported in the City's basic financial statements.

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CITY OF LA HABRA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

Section I – Summary of Auditor’s Results

Financial Statements:

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

Federal Awards:

Internal control over major programs:	
<ul style="list-style-type: none"> • Material weakness(es) identified? • Significant deficiency(ies) identified not considered to be material weaknesses? 	<p>Yes</p> <p>None noted</p>
Type of auditor’s report issued on compliance for major programs:	Unqualified for all major programs except for the Community Development Block Grants - Entitlement Grants Cluster, which was qualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.558	Child and Adult Care Food Program
14.218, 14.253	Community Development Block Grants-Entitlement Grants Cluster
17.259	Workforce Investment Act Youth Activities Program Cluster
93.575, 93.596	Child Care and Development Fund Cluster
93.600, 93.709	Head Start Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as a low-risk auditee?	No

CITY OF LA HABRA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2012

Section II – Financial Statement Findings

None noted.

Section III – Federal Award Findings and Questioned Costs

Reference Number:	2012-1
Federal Program Titles:	Community Development Block Grant /Entitlement Grants (CDBG) Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)
Federal Catalog Numbers:	14.218 and 14.253
Federal Agency:	Department of Housing and Urban Development (HUD)
Federal Award Numbers and Years:	B-06-MC-06-0582, B-07-MC-06-0582, B-09-MC-06-0582, B-10-MC-06-0582, B-11-MC-06-0582, B-09-MY-06-0582
Category of Finding:	Reporting

Criteria or Specific Requirement

The reporting compliance requirement stated in OMB Circular A-133 *Compliance Supplement* requires that the prime recipient must submit *Integrated Disbursement and Information System (IDIS)* reports, such as C04PR03 – Activity Summary Report and C04PR26 – CDBG Financial Summary. The IDIS reports are included in the Consolidated Annual Performance and Evaluation Report (CAPER), which is due within 90 days after the reporting period.

Condition

During our audit of the reporting requirements, we noted that the CAPER was submitted in a timely manner; however, the financial information reported in the IDIS Report – C04PR26 was incorrect, such as *total available, total expenditures, total public service obligations, and total planning and administration*. The City department responsible for the report is the Community Development Department.

Cause

The deficiency appears to be a lack of understanding of C04PR26 reporting components.

Effect

The program was not in compliance with the submissions of IDIS report, thus not providing HUD with accurate information to monitor (1) financial activities; (2) earmarking requirements; and (3) housing rehabilitation, housing construction, and other public construction activities.

Questioned Costs

Not applicable.

CITY OF LA HABRA
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2012

Context

We reviewed 5 key line items in the IDIS Report – C04PR26. We noted errors in 3 of the 5 line items reviewed, which resulted in the under reporting expenditures in the amount of \$182,923 for the year ended June 30, 2012.

Recommendation

We recommend the City develop procedures to accurately capture information for grant reporting.

Management Response and Corrective Action

1. Person Responsible: Economic Development & Housing Manager
2. Corrective action plan: During this past year, senior staff in the Community Development Department experienced significant difficulties accessing the Integrated Disbursement Information System to address this issue. This matter was recently resolved by the Washington DC office. Staff is currently working with local HUD representatives to reconcile the reported expenditure differences. It is anticipated this situation will be resolved within the coming months which will include the establishment of procedures to avoid this from occurring in the future.
3. Anticipated implementation date: June 30, 2013

CITY OF LA HABRA
Summary Schedule of the Status of Prior Year Findings
For the Year Ended June 30, 2012

Prior Year Federal Award Findings and Questioned Costs

Reference Number: 2011-01
Federal Program Titles: Community Development Block Grant /Entitlement Grants (CDBG)
Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)
Federal Catalog Numbers: 14.218 and 14.253
Federal Agency: Department of Housing and Urban Development (HUD)
Federal Award Numbers and Years: B-07-MC-06-0582, B-08-MC-06-0582, B-09-MC-06-0582, B-09-MY-06-0582
Category of Finding: Reporting

Condition:

During the fiscal year 2011 audit of the reporting requirements, we noted that the financial information reported in the IDIS Report – C04PR26 was incorrect, such as *the unexpended CDBG funds at end of previous program year, total available, total expenditures, total public service obligations, and total planning and administration*. The City department responsible for these reports is the Community Development Department.

Corrective Action Taken

Unexpended CDBG funds at the end of the previous program year did not match the C04PR26 worksheet because staff inadvertently picked up the incorrect beginning balance from the wrong worksheet. Staff will make a retroactive correction to report form C04PR26 to resolve this issue.

Status

Similar finding was identified in fiscal year 2012. See Item 2012-1 in Schedule of Findings and Questioned Costs.

Reference Number: 2011-02
Federal Program Titles: Community Development Block Grant /Entitlement Grants (CDBG)
Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)
Federal Catalog Numbers: 14.218 and 14.253
Federal Agency: Department of Housing and Urban Development (HUD)
Federal Award Numbers and Years: B-03-MC-06-0582, B-08-MC-06-0582, B-09-MC-06-0582, B-10-MC-06-0582, B-09-MY-06-0582
Category of Finding: Reporting

Condition

During our audit of the reporting requirements, we noted that the City did not prepare and submit form SF-425 to HUD.

CITY OF LA HABRA
Summary Schedule of the Status of Prior Year Findings (Continued)
For the Year Ended June 30, 2012

Corrective Action Taken

Housing Staff was not aware of the requirement to submit this report. However, staff did complete all SF-272 reports for Fiscal Year 10-11. Evidently, the SF-425 replaces the SF-272 report. Now that staff is aware of the new reporting form, staff will begin reporting and submitting the SF-425 quarterly report for FY 2012 rather than the now obsolete SF-272 report.

Status

No further instances were identified during fiscal year 2012.

Reference Number:	2011-03
Federal Program Title:	Community Development Block Grant /Entitlement Grants (CDBG)
Federal Catalog Number:	14.218
Federal Agency:	Department of Housing and Urban Development (HUD)
Federal Award Numbers and Years:	B-03-MC-06-0582, B-08-MC-06-0582, B-09-MC-06-0582, B-10-MC-06-0582
Category of Finding:	Subrecipient Monitoring

Condition

During our audit, we noted that three out of 36 quarterly reports were not submitted timely. The City department responsible for monitoring subrecipients for this program is the Community Development Department.

Corrective Action Taken

The person who is responsible for submitting them was out ill during these periods. There was no one else in the office trained to complete these reports. Housing Staff will communicate with the Gary Center Management to provide training to another individual to assure there is sufficient personnel available to prepare and mail quarterly reports in a timely manner.

Status

No further instances were identified during fiscal year 2012.

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