

**CITY OF HAWTHORNE, CALIFORNIA**

**SINGLE AUDIT REPORT**

**JUNE 30, 2006**

CITY OF HAWTHORNE, CALIFORNIA

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**CITY OF HAWTHORNE**

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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 Mayor and Members of the City Council  
City of Hawthorne, 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 Hawthorne, California, as of and for the year ended June 30, 2006, which collectively comprise the City of Hawthorne's basic financial statements and have issued our report thereon dated November 3, 2006. 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**

In planning and performing our audit, we considered the City of Hawthorne's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Hawthorne'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 two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 06-1 and 06-2.





To the Honorable Mayor and Members of the City Council  
City of Hawthorne, California

This report is intended solely for the information of the City Council, management, 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.

*Lance, Soll & Lunghard, LLP*

November 3, 2006

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM ON INTERNAL CONTROL OVER COMPLIANCE AND  
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and Members of the City Council  
City of Hawthorne, California

**Compliance**

We have audited the compliance of the City of Hawthorne, California, with the types of compliance requirements described in the United States Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. The City of Hawthorne's major federal programs are identified in the summary of auditor's result 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 of Hawthorne's management. Our responsibility is to express an opinion on the City of Hawthorne'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 of Hawthorne'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 on the City of Hawthorne's compliance with those requirements.

In our opinion, the City of Hawthorne complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

**Internal Control Over Compliance**

The management of the City of Hawthorne is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Hawthorne's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our 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.



To the Honorable Mayor and Members of the City Council  
City of Hawthorne, California

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

#### **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 of Hawthorne as of and for the year ended June 30, 2006, and have issued our report thereon dated November 3, 2006. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of the City Council, management, 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.

*Lance, Soll & Lunghard, LLP*

January 31, 2007

**CITY OF HAWTHORNE, CALIFORNIA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2006**

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u>                           | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-Through/<br/>Grantor's<br/>Number</u> | <u>Expenditures</u>      |
|---|------------------------------------|---|--------------------------|
| <u>U.S. Department of Housing and Urban Development</u>                             |                                    |   |                          |
| Direct Program:   |                                    |   |                          |
| Community Development Block Grant   | 14.218                             | B-05-MC-06-0519                               | \$ 1,708,761             |
| Home Investment Partnership Program (HOME)  | 14.239                             | M-05-MC-06-0513                               | 981,340                  |
| Housing Assistance Payment Program<br>Section 8*                                    | 14.871                             | HAPP Various                                  | 5,552,882                |
| EDI Special Project Grant   | 14.246                             | B-01-SP-CA-0056                               | 3,730                    |
| Section 108 Guaranteed Loan   | 14.248                             | Various                                       | 643,517                  |
| Passed through the County of Los Angeles<br>and Other Cities:                       |                                    |   |                          |
| Housing Assistance Payment Program<br>Section 8*                                    | 14.871                             | Various                                       | <u>5,651,404</u>         |
| <b>Total U.S. Department of Housing<br/>and Urban Development</b>                   |                                    |   | <b><u>14,541,634</u></b> |
| <u>U.S. Department of Labor</u>   |                                    |   |                          |
| Passed through the State of California:   |                                    |   |                          |
| Employment Development Department:  |                                    |   |                          |
| Workforce Investment Act Cluster*   | 17.260                             | R485314<br>R588760<br>R692511                 | 8,116,755                |
| Passed through Los Angeles County:  |                                    |   |                          |
| Adult Lennox (LA County-Lennox)   | 17.258                             | 20019   | 96,645                   |
| Dislocated Workers Lennox (LA County-Lennox)  | 17.259                             | 20060   | 151,453                  |
| Calworks Youth Jobs   |                                    | CN20125                                       | 344,313                  |
| Employment and Training Research<br>and Development Projects Cluster (GAIN)<br>STEP |                                    | 74892   | 945,166                  |
| L.A. County Probation Delinquency Prevention  |                                    | 640/05/075                                    | 3,846,678                |
| L.A. County Superior Court  |                                    | SC2005-01                                     | 36,288                   |
| L.A. County Probation Anti-Gang   |                                    | 640/05/119                                    | 20,000                   |
| Board of Corrections-CSA  |                                    | 328-05  | 35,000                   |
| City of Hawthorne - CDBG  |                                    | 06-H108                                       | 200,000                  |
| City of Inglewood - CDBG  |                                    | 05-113  | 1,000                    |
| City of Los Angeles-Title V   |                                    | C-108936                                      | 20,000                   |
| LA County-Dispute Resolution Program  |                                    | CK 50004                                      | 56,166                   |
| City of Hawthorne - Gateway   |                                    | 05-H177                                       | 217,327                  |
| Inglewood Unified School District   |                                    | 06-H109                                       | 110,920                  |
| L.A. Unified School District-SCPP   |                                    | 0642H4  | 12,000                   |
| L.A. County CSBG  |                                    | CK35170                                       | 51,500                   |
| Hawthorne School District   |                                    | 06-H107                                       | 23,840                   |
| Traffic Safety-DPSS   |                                    | OTS1005                                       | 112,500                  |
|   |                                    |   | 20,236                   |



## CITY OF HAWTHORNE, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2006

CONTINUED

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u>         | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-Through/<br/>Grantor's<br/>Number</u> | <u>Expenditures</u>  |
|---|------------------------------------|---|----------------------|
| <u>U.S. Department of Labor (Continued)</u>                       |                                    |   |                      |
| Passed through Los Angeles County (Continued):                    |                                    |   |                      |
| County of Los Angeles One-Stops*                                  | 17.258                             | 01-H447                                       | 297,784              |
| LA CO O/S & Foothill  | 17.259                             | 18679   | 302,014              |
| CTR LA CO   |                                    | 00-H240                                       | 75,000               |
| One-Stop Navigator  |                                    | WI-13228-03-60                                | 146,770              |
| <b>Total U.S. Department of Labor</b>                             |                                    |   | <b>15,239,355</b>    |
| <u>U.S. Department of Justice</u>                                 |                                    |   |                      |
| Direct Program:   |                                    |   |                      |
| Office of National Drug Control Policy                            |                                    |   |                      |
| High Intensity Drug Trafficking Area Grant                        | 16.728                             | I5PLAP534Z<br>I4PLAP534Z                      | 2,922,751<br>246,375 |
| Bureau of Justice Assistance                                      |                                    |   |                      |
| Local Law Enforcement Block Grant                                 | 16.592                             | 03-LB-BX-2284<br>04-LB-BX-1456                | 6,884<br>17,577      |
| Federal Asset Forfeiture Program                                  | 16.000                             | Various                                       | 275,629              |
| Passed through the State of California:                           |                                    |   |                      |
| Office of Emergency Services                                      |                                    |   |                      |
| L.A. Regional Gang Information Network Grant*                     | 16.579                             | DC04026850<br>DC033Q6850                      | 209,409<br>66,146    |
| L.A. County Regional Criminal Information<br>Clearinghouse Grant* | 16.579                             | DC04146850                                    | 111,285              |
| <b>Total U.S. Department of Justice</b>                           |                                    |   | <b>3,856,056</b>     |
| <u>U.S. Department of Homeland Security</u>                       |                                    |   |                      |
| Passed through County of Los Angeles:                             |                                    |   |                      |
| State Homeland Security Grant Program                             | 97.067                             | 2004  | 44,684               |
| Passed through City of Los Angeles:                               |                                    |   |                      |
| Urban Areas Security Initiative                                   | 97.067                             | 2005  | 46,390               |
| <b>Total U.S. Department of Homeland Security</b>                 |                                    |   | <b>91,074</b>        |

**CITY OF HAWTHORNE, CALIFORNIA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2006**

**CONTINUED**

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u>   | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-Through/<br/>Grantor's<br/>Number</u> | <u>Expenditures</u>         |
|---|------------------------------------|---|-----------------------------|
| <u>U.S. Department of Transportation</u>  |                                    |   |                             |
| Passed through State of California<br>Office of Traffic Safety:<br>State and Community Highway Safety | 20.600                             | -   | 21,319                      |
| Passed through State of California:<br>Highway Planning and Construction                              | 20.205                             | DPM-0031(017)                                 | 481,906                     |
| Direct Program:<br>Federal Aviation Administration<br>Airport Improvement Program                     | 20.106                             | DTFA08-03-C-21698<br>DTFA08-02-C-21517        | <u>203,974</u>              |
| <b>Total U.S. Department of Transportation</b>  |                                    |   | <b><u>707,199</u></b>       |
| <b>Total Federal Expenditures</b>   |                                    |   | <b><u>\$ 34,435,318</u></b> |

**\*Major Program**

- Note a: Refer to Note 1 of the City financial statements for a description of significant accounting policies used in preparing this schedule.
- Note b: There are no federal awards expended in the form of non-cash assistance, insurance in effect or loans or loan guarantees during the year.
- Note c: Total amount provided to subrecipients during the year from the Community Development Block Grant amounted to \$6,000.
- Note d: Total amount provided to subrecipients during the year from the Job Training Partnership Act Grant amounted to \$720,591

**CITY OF HAWTHORNE**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2006**

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**Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards**

**a. Scope of Presentation**

The accompanying schedule presents only the expenditures incurred by the City of Hawthorne that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

**b. Basis of Accounting**

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

**CITY OF HAWTHORNE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditors' report issued: Unqualified Opinion

Internal control over financial reporting:

- Material weakness(es) identified? ☐yes ☒no
- Reportable condition(s) identified that are not considered to be material weakness(es)? ☐yes ☒none reported

Noncompliance material to financial statements noted? ☒yes ☐no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐yes ☒no
- Reportable condition(s) identified that are not considered to be material weakness(es)? ☐yes ☒none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☐yes ☒no

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u>    |
|-----------------------|--|
| 14.871                | Housing Assistance Payment Program Section 8 |
| 16.579                | Edward Byrne Memorial Formula Grant Program  |
| 17.258/17.259/17.260  | Workforce Investment Act Cluster             |

Dollar threshold used to distinguish between type A and type B program \$1,033,060

Auditee qualified as low-risk auditee? ☐yes ☒no

**CITY OF HAWTHORNE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**CONTINUED**

**SECTION II - FINANCIAL STATEMENT FINDINGS**

Finding Number: 06-1

Section 33334.16 of the Health and Safety Code requires a redevelopment agency to initiate activities to develop properties acquired with Low and Moderate Income Housing Funds within five years from the date of acquisition. If development activities have not begun within this period, the legislative body may adopt a resolution extending the period for one time, not to exceed five years. The Agency had acquired land with Low and Moderate Income Housing monies; however, activities have not been initiated to develop the property within five years from acquisition and the Agency has not timely requested the prescribed extension as of June 30, 2006. This situation has been brought to the attention of the Agency.

Finding Number: 06-2

Sections 33490 and 33413(b) of the Health and Safety Code require a redevelopment agency to produce Implementation Plans for each Project Area every five years. The Agency is delinquent in its preparation of its Five-year Implementation Plan, due December 31, 2004.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

**CITY OF HAWTHORNE**

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

Finding Number: 05-1

- Federal Program  
CFDA Number: 14.871  
Title: Housing Assistance Payment Program Section 8  
Federal Agency: U.S. Department of Housing and Urban Development  
Award Number: HAPP Various  
Pass-Through Entity: County of Los Angeles
- Criteria or Specific Requirement  
OMB Circular A-133 requires that the grant recipient must inspect leases at least annually to ensure they meet HUD housing quality standards.
- Condition  
During our review, we found instances where the annual inspection form to ensure that the rental unit meets HUD housing quality standards was missing from the tenant's file.
- Questioned Costs  
\$0
- Effect  
The City may not meet the compliance.
- Current Status  
The files were updated and complete.