

CITY OF HAWTHORNE, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2007

CITY OF HAWTHORNE, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2007

CITY OF HAWTHORNE

JUNE 30, 2007

TABLE OF CONTENTS

	<u>Page Number</u>
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
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	3
Schedule of Expenditures of Federal Awards for the Fiscal Year Ended June 30, 2007.....	5
Notes to the Schedule of Expenditures of Federal Awards.....	8
Schedule of Findings and Questioned Costs for the Fiscal Year Ended June 30, 2007.....	9
Schedule of Prior Year Findings and Questioned Costs for the Fiscal Year Ended June 30, 2006.....	11

**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, (the City) as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 14, 2008. 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'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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as reported in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 07-1, 07-2, and 07-3 to be significant deficiency in internal control over financial reporting.



Honorable Mayor and Members of City Council
City of Hawthorne

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described in the accompanying schedule of findings and questioned costs is a material weakness.

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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States and is described in the accompanying schedule of findings and questioned costs as item 07-4.

This report is intended solely for the information and use of management, the audit committee, City Council, and 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.

January 14, 2008

**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, (the "City"), 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, 2007. The City'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'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 on the City's compliance with those requirements.

In our opinion, the City 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, 2007.

Internal Control Over Compliance

The 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 the requirements that could have a direct and material effect on a major federal program in order to determine our audit procedures for the purpose of expressing our opinion on compliance, 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.



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

A *control deficiency* in a City's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiency in the internal control over compliance that we consider material weakness as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the City as of and for the year ended June 30, 2007, and have issued our report thereon dated January 14, 2008. Our audit was performed for the purpose of forming an opinion of 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 is 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.

A handwritten signature in black ink that reads 'Lance, Soll & Lunghard, LLP'. The signature is written in a cursive, flowing style.

March 7, 2008

CITY OF HAWTHORNE, CALIFORNIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through/ Grantor's Number	Expenditures
<u>Executive Office of the President</u>			
Office of National Drug Control Policy:			
High Intensity Drug Trafficking Area Grant*	07.999	I5PLAP534Z I6PLAP534Z	\$ 386,800 3,931,319
Total Executive Office of the President			4,318,119
<u>U.S. Department of Housing and Urban Development</u>			
Direct Program:			
Community Development Block Grant*	14.218	B-06-MC-06-0519	1,329,341
Home Investment Partnership Program (HOME)	14.239	M-06-MC-06-0513	1,207,131
Housing Assistance Payment Program Section 8 *	14.871	HAPP Various	5,580,770
Section 108 Guaranteed Loan*	14.248	Various	705,021
Passed through the County of Los Angeles and Other Cities:			
Housing Assistance Payment Program Section 8 *	14.871	Various	5,018,823
Total U.S. Department of Housing and Urban Development			13,841,086
<u>U.S. Department of Justice</u>			
Direct Program:			
Federal Asset Forfeiture Program	16.000	Various	340,719
Bureau of Justice Assistance:			
Edward Byrne Justice Assistance Grant Program	16.738	2005-DJ-BX-1696	23,990
G.R.E.A.T. Program	16.737	2006-JV-FX-0052	6,270
Passed through the State of California:			
Office of Emergency Services:			
L.A. Regional Gang Information Network Grant	16.579	DC033Q6850	40,347
L.A. County Regional Criminal Information Clearinghouse Grant	16.579	DC04146850	511,708
L.A. Regional Gang Information Network Grant	16.738	DC05036850	292,369
L.A. County Regional Criminal Information Clearinghouse Grant	16.738	DC05156850	856,687
Total U.S. Department of Justice			2,072,090

CITY OF HAWTHORNE, CALIFORNIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through/ Grantor's Number	Expenditures
<u>U.S. Department of Labor</u>			
Passed through the State of California			
Employment Development Department:			
Workforce Investment Act Cluster	17.260	R692511	\$ 2,070,667
		R760359	3,630,647
		R588760	939,026
Passed through Los Angeles County:			
Adult Lennox (LA County-Lennox)	17.258	20170	80,002
Dislocated Workers Lennox (LA County-Lennox)	17.259	20226	115,040
Calworks Youth Jobs		20262	298,000
Employment and Training Research and Development Projects Cluster (GAIN)		74892	949,269
STEP		74892	4,534,049
Workstudy		74892	320,117
L.A. County Probation Delinquency Prevention		640-06-018	36,288
L.A. USD Beyond the Bell		07-H129	235,500
L.A. County Probation Anti-Gang		640-06019	35,000
City of Inglewood - CDBG		06-H205	10,000
City of Los Angeles		C-108936	56,500
LA County-Dispute Resolution Program		CK 50178	217,327
Inglewood Unified School District		06-H144	12,000
Bureau of Standard Authority		06-H202	110,974
L.A. County CSBG		CK35170	12,267
Traffic Safety-DPSS		OTS 077	20,236
Juvenile Diversion Cluster Projects			314,420
County of Los Angeles One-Stops	17.258	05-H111	226,340
CTR LA CO	17.259	06-H149	75,000
Passed through the City of Pasadena:			
Foothill ETC	17.259	19210	270,865
California Space Authority WIRED		06-H148	21,268
Juvenile Justice Grants			
Gateway Colaborative		CSA 404-06	297,000
Bridge to Work Title II		CSA 352-06	34,150
Direct Program:			
Bridge to Work	17.261	EA - 15383-06-60	230,376
Total U.S. Department of Labor			15,152,328

CITY OF HAWTHORNE, CALIFORNIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through/ Grantor's Number	Expenditures
<u>U.S. Department of Transportation</u>			
Direct Program:			
Federal Aviation Administration:			
Airport Improvement Program*	20.106	3-06-0101-11 DTFA08-02-C-21517 DTFA08-03-C-21698 DTFA08-05-C-21845 DTFA08-06-C-22010	\$ 941,505
Passed through State of California			
Department of Transportation:			
Highway Planning and Construction*	20.205	HPLUL-5253(011) HPLUL-5253(012) DPM-0031(017)	3,706,241
Passed through State of California			
Office of Traffic Safety:			
Sobriety Checkpoint Program	20.600	SC071908	16,155
Click It or Ticket Program	20.600	CT071938	20,739
Total U.S. Department of Transportation			4,684,640
<u>U.S. Department of Homeland Security</u>			
Passed through County of Los Angeles			
Office of Emergency Management:			
State Homeland Security Grant Program	97.067	SHSP	57,286
Passed through City of Los Angeles:			
Urban Areas Security Initiative	97.008	-	62,250
Total U.S. Department of Homeland Security			119,536
Total Federal Expenditures			\$ 40,187,799

*Major Program

- Note a: Refer to Note 1 of the schedule of expenditures of federal awards for a description of significant accounting policies used in preparing this schedule.
- Note b: There was no federal awards expended in the form of non-cash assistance or insurance in effect during the year.
- Note c: Total amount provided to subrecipients during the year from the Community Development Block Grant amounted to \$7,000.
- Note d: Total amount provided to subrecipients during the year from the Job Training Partnership Act Grant amounted to \$1,402,571.

CITY OF HAWTHORNE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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, 2007**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Significant deficiencies identified? X yes no
- Significant deficiencies identified that are considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements noted? X yes no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? yes X no
- Significant deficiencies identified that are considered to be material weaknesses? yes X 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 X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
07.999	High Intensity Drug Trafficking Area Grant
14.218	Community Development Block Grant
14.871	Housing Assistance Payment Program Section 8
14.248	Section 108 Guaranteed Loan
20.106	Airport Improvement Program
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between type A and type B program \$1,184,483

Auditee qualified as low-risk auditee? yes X no

CITY OF HAWTHORNE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Number: 07-1

During the current fiscal year, the City received many Federal and State grants and had material grant related expenditures. For the most part, all material grants were properly reconciled. However, we noted two instances where grant reimbursement accruals were missed for expenditure incurred in the current fiscal year. Again, since recent auditing standards have made it clear that the independent auditor is not and cannot be part of their client's financial reporting process or its internal control, the City needs to review its procedures to ensure that all grants are properly reconciled and grant expenditure reimbursement properly set up.

Finding Number: 07-2

Beginning fund balances have been restated in the General Fund and the Gas Tax Fund to reclassify liability insurance expenditure incorrectly allocated to the Gas Tax Fund in prior year. In addition, beginning fund balances have been restated in the General Fund and the Air Quality Fund to reclassify prior year disallowed Air Quality Fund expenditures.

Finding Number: 07-3

In August 2000, the Hawthorne Redevelopment Agency entered into a Disposition and Development Agreement with certain developers who advanced the Agency \$5,500,000 and cancelled a note for approximately \$7,000,000. In return the Agency executed a promissory note for \$12,500,000. The repayment of this note consists of Mello-Ross tax refund, sale tax and transient occupancy tax refund to the extent these taxes are generated within the project site. However, this note was not recorded as a liability of the Agency and was only footnoted in the prior audit reports. Upon further review of the note document, this note should have been recorded as a liability of the Agency at the time of the agreement and is now recorded in the Agency's accounting records.

Finding Number: 07-4

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 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, 2007. This situation has been brought to the attention of the Agency.

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, 2006**

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.

Status

The finding was not corrected as of June 30, 2007.

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.

Status

The finding was corrected as of June 30, 2007.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.