



**CITY OF HAWTHORNE, CALIFORNIA**

**SINGLE AUDIT REPORT**

**JUNE 30, 2008**

**Lance Soll & Lunghard, LLP**

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CITY OF HAWTHORNE, CALIFORNIA

SINGLE AUDIT REPORT

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**CITY OF HAWTHORNE**

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- David E. Hale, C.P.A., C.F.P.  
A Professional Corporation
- Donald G. Slater, C.P.A.
- Richard K. Kikuchi, C.P.A.
- Susan F. Matz, C.P.A.

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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 17, 2009. 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.

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 findings 08-1 through 08-4 to be significant deficiencies in internal control over financial reporting.

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 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 internal control that might be significant deficiencies or 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.



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

### **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 instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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.

*Lance, Soll & Loughard, LLP*

March 17, 2009

- Brandon W. Burrows, C.P.A.
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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 the 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, 2008. 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, 2008.

**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 the 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 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, 2008, and have issued our report thereon dated March 17, 2009. 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, 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 & Loughard, LLP*

March 17, 2009

## CITY OF HAWTHORNE, CALIFORNIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through/Grantor's Number</b>	<b>Expenditures</b>
<u>Executive Office of the President</u>			
Office of National Drug Control Policy:			
High Intensity Drug Trafficking Area Grant	07.999	I5PLAP534Z I6PLAP534Z	\$ 1,385 578,005
<b>Total Executive Office of the President</b>			<b>579,390</b>
<u>U.S. Department of Housing and Urban Development</u>			
Direct Program:			
Community Development Block Grant *	14.218	B-07-MC-06-0519	2,095,663
Section 108 Guaranteed Loan	14.248	Various	831,113
Home Investment Partnership Program (HOME)	14.239	M-07-MC-06-0513	968,461
Housing Assistance Payment Program Section 8	14.871	HAPP Various	5,579,485
Passed through the County of Los Angeles and Other Cities:			
Housing Assistance Payment Program Section 8	14.871	Various	5,117,359
<b>Total U.S. Department of Housing and Urban Development</b>			<b>14,592,081</b>
<u>U.S. Department of Justice</u>			
Direct Program:			
Federal Asset Forfeiture Program	16.000	Various	500,665
Bureau of Justice Assistance:			
Edward Byrne Justice Assistance Grant Program	16.738	2005-DJ-BX-1696	26,959
G.R.E.A.T. Program	16.737	2006-JV-FX-0052	396
Sex Offenders/Gang Members Tracking Program	16.202	2006-DJ-BX-1153	52,051
<b>Total U.S. Department of Justice</b>			<b>580,071</b>
<u>U.S. Department of Homeland Security</u>			
Passed through City of Los Angeles:			
Urban Areas Security Initiative	97.008	-	33,080
<b>Total U.S. Department of Homeland Security</b>			<b>33,080</b>



## CITY OF HAWTHORNE, CALIFORNIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through/ Grantor's Number</b>	<b>Expenditures</b>
<b>U.S. Department of Labor</b>			
Passed through the State of California Employment Development Department: Workforce Investment Act Cluster *	17.260	R692511 R760359 R865495	\$ 396,079 2,116,691 3,625,438
Passed through Los Angeles County: Calworks Youth Jobs		20285	397,979
Employment and Training Research and Development Projects Cluster (GAIN)		74892	1,038,795
STEP		74892	4,906,767
Workstudy		74892	1,713,721
L.A. County Probation Delinquency Prevention		640-07-021	36,288
L.A. USD Beyond the Bell		07-H233	1,905,880
L.A. County Probation Anti-Gang		640-07-057	35,000
City of Inglewood - CDBG		07-H248	14,750
City of Los Angeles		C-109836	56,166
Dispute Resolution Program		CK 50178	217,327
Inglewood Unified School District		08-H101	4,800
Bureau of Standard Authority		06-H202	110,974
L.A. County CSBG		35170	29,028
Traffic Safety		OTS 077	3,000
County of Los Angeles One-Stops	17.258	05-H111	194,937
CTR LA CO	17.259	07-H238	75,000
Passed through the City of Pasadena: Foothill ETC	17.259	19456	152,692
California Space Authority WIRED		06-H148	48,255
Juvenile Justice Grants: Gateway Colaborative		CSA 404-07	297,000
Bridge to Work Title II		CSA 352-07	531,887
California Department of Education: 21st Century Community Centers Learning Grant	84.287	19-14535-2377-4A	190,850
<b>Total U.S. Department of Labor</b>			<b>18,099,304</b>

## CITY OF HAWTHORNE, CALIFORNIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through/ Grantor's Number</b>	<b>Expenditures</b>
<u>U.S. Department of Transportation</u>			
Direct Program:			
Federal Aviation Administration:			
Airport Improvement Program	20.106	3-06-0101-11 DTFA08-05-C-21845 DTFA08-06-C-22010	\$ 4,834,053
Passed through State of California			
Department of Transportation:			
Highway Planning and Construction *	20.205	STPL-5253(010)	598,072
Passed through State of California			
Office of Traffic Safety:			
Sobriety Checkpoint Program	20.600	SC08171	40,970
Click It or Ticket Program	20.600	CT071938	7,000
<b>Total U.S. Department of Transportation</b>			<b>5,480,095</b>
<b>Total Federal Expenditures</b>			<b>\$ 39,364,021</b>

## \*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 \$3,000.
- Note d: Total amount provided to subrecipients during the year from the Job Training Partnership Act Grant amounted to \$888,772.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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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, California, 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, 2008**

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

Financial Statements

Type of auditors' report issued: Unqualified Opinion

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

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

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

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:

CFDA Number(s)

Name of Federal Program or Cluster

14.218  
17.258/17.259/17.260  
20.205

Community Development Block Grant  
Workforce Investment Act Cluster  
Highway Planning and Construction

Dollar threshold used to distinguish between type A and type B program \$1,155,987

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

**CITY OF HAWTHORNE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

**Finding Number: 08-1**

During our audit procedures on cash and investments, we noted that the June 2008 bank reconciliation for the general checking account has a total line described as "difference arising during the current month". We reviewed prior month bank reconciliations for the general checking account and noted the same line item on the bank reconciliation with a different amount every month. We recommend that the City tighten its bank reconciliation procedures for its general checking account to identify reconciling items and investigate variances.

**Finding Number: 08-2**

During our review of the grant activity, we noted that grants had not been properly reconciled. The City provided several subsequent journal entries to properly record grant receivables and set up deferred revenue. We recommend that the City review its procedures to ensure that all grants are properly reconciled, and grant receivables and deferred revenue properly set up.

**Finding Number: 08-3**

Beginning fund balance for the Community Redevelopment Agency Capital Project has been restated for prior year tax rebate liability not properly accrued in the prior fiscal year.

**Finding Number: 08-4**

The City currently does not have its internal control policies and procedures in written form. The City follows certain procedures based on verbal understandings, but these should be documented in writing.

**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, 2007**

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#### **SECTION I - 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.

Status: Similar instances were noted in the current period.

##### **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.

Status: Similar instances were noted in the current period.

##### **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.

Status: The City has corrected the finding and there were no instances noted in the current period.

##### **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.

Status: The City has corrected the finding and there were no instances noted in the current period.

#### **SECTION II - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.