



CITY OF HAWTHORNE, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2009

Lance Soll & Lunghard, LLP

203 North Brea Blvd
Suite 203
Brea, CA 92821

41185 Golden Gate Circle
Suite 103
Murrieta, CA 92562

CITY OF HAWTHORNE, CALIFORNIA

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CITY OF HAWTHORNE

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- Brandon W. Burrows, CPA
- Donald L. Parker, CPA
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- Donald G. Slater, CPA
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- Susan F. Matz, CPA
- Shelly K. Jackley, CPA

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, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 9, 2010. 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 09-1 through 09-4 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 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 above are 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 no 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, Solt & Loughard, LLP

February 9, 2010

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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, 2009. The City of Hawthorne'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 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, 2009.

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, 2009, and have issued our report thereon dated February 9, 2010. 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

February 17, 2010

CITY OF HAWTHORNE, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through/ Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Direct Program:			
Community Development Block Grant *	14.218	B-08-MC-06-0519	\$ 1,706,508
Section 108 Guaranteed Loan	14.248	Various	812,930
Home Investment Partnership Program (HOME) *	14.239	M-08-MC-06-0513	2,598,858
American Down Payment Dream Program	14.239	M-08-MC-06-0513	34,539
Housing Assistance Payment Program Section 8 *	14.871	HAPP Various	6,250,992
Passed through the County of Los Angeles and Other Cities:			
Housing Assistance Payment Program Section 8 *	14.871	Various	4,429,012
Total U.S. Department of Housing and Urban Development			15,832,839
<u>U.S. Department of Justice</u>			
Direct Program:			
Federal Asset Forfeiture Program	16.000	Various	599,923
Juvenile Justice and Delinquency Prevention:			
Bridge to Work Title II	16.540	CSA 352-07	434,303
CalGRIP	16.540	GR 07016850	167,110
Bureau of Justice Assistance:			
Edward Byrne Justice Assistance Grant Program	16.738	2005-DJ-BX-1696	51,447
		2008-DJ-BX-0491	11,224
G.R.E.A.T. Program	16.737	2006-JV-FX-0052	45,013
Total U.S. Department of Justice			1,309,020
<u>U.S. Department of Labor</u>			
Direct Program:			
Bridge to Work ear Marked Grant	17.261	EA185900960A6	21,257
California Space Authority WIRED	17.261	06-H148	4,950
Workforce Investment Act Cluster:			
County of Los Angeles One-Stops	17.258	05-H111	119,478
CTR LA CO	17.259	07-H238	75,000
LA Harbor Grant	17.260	4500099881	235,352
Passed through the City of Pasadena:			
Foothill ETC	17.259	19456	332,572
Passed through the State of California			
Office of Employment Development Department:			
Workforce Investment Act	17.260	R760359	494,180
		R865495	2,367,906
		R970563	3,753,419
ARRA - Workforce Investment Act		R970563	29,069
Total U.S. Department of Labor			7,433,183

CITY OF HAWTHORNE, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through/Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Transportation</u>			
Direct Program:			
Federal Aviation Administration:			
Airport Improvement Program *	20.106	3-06-0101-11	\$ 931,695
Passed through State of California			
Department of Transportation:			
Highway Planning and Construction	20.205	STPLR-7500(074)	75,376
Passed through State of California			
Office of Traffic Safety:			
Sobriety Checkpoint Program	20.600	SC09171	31,063
Click It or Ticket Program	20.600	CT09171	18,622
Total U.S. Department of Transportation			<u>1,056,756</u>
<u>U.S. Department of Education</u>			
Passed through State of California			
Department of Education:			
21st Century Community Centers Learning Grant	84.287	19-14535-2377-4A	250,000
Total U.S. Department of Education			<u>250,000</u>
<u>U.S. Department of Health and Human Services</u>			
Passed through the County of Los Angeles:			
Employment and Training Research			
and Development Projects Cluster (GAIN)	93.558	74892	1,093,271
STEP	93.558	74892	3,195,115
Workstudy	93.558	74892	1,891,215
Total U.S. Department of Health and Human Services			<u>6,179,601</u>
Total Federal Expenditures			<u>\$ 32,061,399</u>

*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 \$5,944.
- Note d: Total amount provided to subrecipients during the year from the Job Training Partnership Act Grant amounted to \$2,606,666.

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, 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, 2009**

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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
14.239	Home Investment Partnership Program (HOME)
14.871	Housing Assistance Payment Program Section 8
20.106	Airport Improvement Program

Dollar threshold used to distinguish between type A and type B program \$937,454

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

CITY OF HAWTHORNE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Number: 09-1

During our audit, we noted a check in the amount of \$652,069 voided before the balance sheet date of June 30, 2009, and also included on the outstanding checklist at June 30, 2009. Voided checks should not be included as outstanding checks. This has been corrected with a Client journal entry.

Finding Number: 09-2

During our test work of capital assets, we noted that the City had current year additions in infrastructure of \$6,571,018 in its Airport Fund. The majority of this amount was for construction cost incurred in prior fiscal years that should have been recorded as construction in progress. As a result, a fund balance restatement of \$5,639,364 was needed to record such capital assets. We recommend that the City review its project cost at the end of the fiscal year and set up cost of unfinished projects that will be later capitalized as construction in progress at the end of the fiscal year.

Finding Number: 09-3

During our search for unrecorded liabilities, we noted two invoices for goods received and services performed prior to the end of the fiscal year that were not recorded as payable at June 30, 2009. Audit adjusting entries have been provided to accrue these invoices. The City needs to review its procedures to ensure that all items relating to the prior fiscal year are appropriately recorded. Toward that end, we recommend that in addition to the performance of the City's general cutoff procedures for payable, the City also review subsequent disbursements for potential accrual.

Finding Number: 09-4

During our audit procedures of the City's grants, we noted that grants had not been reconciled to the general ledger at the end of the fiscal year resulting in several audit adjusting entries to accrue grants receivables for expenditure incurred and eligible for reimbursement, and to set up deferred revenue. For the South Bay Workforce Investment Board, grant receivable and deferred revenue were overstated in prior year by \$8,980,123 and \$8,898,073 respectively resulting in a net asset restatement of \$8,898,073. We recommend that grant activities be reconciled shortly after fiscal year end to ensure that all grants receivables and deferred revenue are properly set up.

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, 2008**

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.

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

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.

Status: Similar instances were noted in the current period.

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.

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

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.

Status: The City is in the process of finalizing its written internal control policies and procedures.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

CITY OF HAWTHORNE, CALIFORNIA

SCHEDULE OF EXPENDITURES OF NON-FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Pass-Through/ Grantor's Number</u>	<u>Expenditures</u>
Passed through the County of Los Angeles: Summer Youth Jobs	20285	\$ 378,897
California Green Grant		15,597
Total Non-Federal Expenditures		\$ 394,494