



CITY OF HAWTHORNE, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2010

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CITY OF HAWTHORNE, CALIFORNIA

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CITY OF HAWTHORNE

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CERTIFIED PUBLIC ACCOUNTANTS

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- David E. Hale, CPA, CFP
A Professional Corporation
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA
- Bryan S. Gruber, 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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 28, 2011. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as finding 2010-1, 2010-2 and 2010-3 to be material weaknesses in internal control.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as finding 2010-4, 2010-5, 2010-6, 2010-7 and 2010-8 to be significant deficiencies in internal control.



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 financial statements of the Hawthorne Community Redevelopment Agency are free of material misstatements, 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. Such provisions included those provisions of laws and regulations identified in the Guidelines for Compliance Audits of California Redevelopment Agencies, issued by the State Controller and as interpreted in the Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. 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* issued by the Comptroller General of the United States and under the Guidelines for Compliance Audits of California Redevelopment Agencies, issued by the State Controller as follows:

Redevelopment Agency Annual Transaction Report

The Redevelopment Agency (Agency) is required to produce and submit within six months following the end of the Agency's fiscal year-end to its legislative body and the State Controller the required annual reports specified by the Health & Safety Code §33080.1. These reports include the Annual Transaction Report. During our field work in November 2010, we noted the Agency had not produced and submitted Loan and Property Reports to its legislative body on a timely basis, but took corrective actions in February 2010.

Low and Moderate Income Housing Planning and Administrative Expenses

Our review of agency operations revealed that while planning and administrative costs applicable to the Low and Moderate Income Housing Fund have been budgeted, the applicability of these costs has not been formalized through actions of the governing body. Since §33334.3(d) of the Health and Safety Code specifies that annually an agency shall determine that these costs are necessary for low and moderate housing purposes, we suggest that the Agency make a specific finding that planning and administrative cost are necessary for the production, improvement, or preservation of low- and moderate-income housing. On December 14, 2010, the government board adopted Resolution No. 404 determining that planning and administrative expenses from the Housing Fund in fiscal year 2009-2010 are necessary for the production, improvement and/or preservation of low and moderate income housing in accordance with Health Safety Code section 33334.3(d).



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

In addition, we noted the following other matters which we would like to bring to your attention:

Fund Balance Deficits

At June 30, 2010, the City has several governmental funds with large ending fund balance deficits. Among the two largest deficits are the Community Development Agency Capital Project Fund and the Street Special Revenue Fund with fund balance deficit of \$(54,818,987) and \$(2,910,352) respectively. As a result, the total governmental funds have a deficit ending fund balance at June 30, 2010 of \$(16,130,865). The City should to take appropriate actions to control expenditure in funds with deficit fund balance since these funds take resources away from the General Fund until further of their own resource become available. Further, the City has a \$(5,025,034) deficit in its Insurance Reserve fund meaning that the City cannot cover its insurance claims with the assets in the Insurance Reserve fund and will need to draw on the general fund resources for its claim liabilities.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, express no opinion on them.

This report is intended solely for the information and use of management, the audit committee, the City Council, 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, Loll & Luyhard, LLP

April 28, 2011



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 (the "City") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2010-9.

Internal Control Over Compliance

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



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

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.

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

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 over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified one deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2010-9. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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, 2010, and have issued our report thereon dated April 28, 2011, which contained a qualified opinion on those financial statements. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, express no opinion on them.

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.

April 28, 2011

CITY OF HAWTHORNE, CALIFORNIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<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-09-MC-06-0519	\$ 1,489,614
Section 108 Guaranteed Loan *	14.248	Various	793,103
Home Investment Partnership Program (HOME)	14.239	M-09-MC-06-0513	1,083,845
ARRA - Homeless Prevention Rapid Re-Housing Program	14.257	S-09-MY-06-0519	531,285
Housing Assistance Payment Program Section 8 *	14.871	HAPP Various	6,693,534
Passed through the County of Los Angeles and Other Cities:			
Housing Assistance Payment Program Section 8 *	14.871	Various	<u>4,584,051</u>
Total U.S. Department of Housing and Urban Development			<u>15,175,432</u>
<u>U.S. Department of Justice</u>			
Direct Program:			
Federal Asset Forfeiture Program	16.000	CA1928000	408,277
Juvenile Justice and Delinquency Prevention:			
Bridge to Work Title II	16.540	CSA 352-08	440,214
CalGRIP	16.540	GR 07016850	200,926
Bureau of Justice Assistance:			
Edward Byrne Justice Assistance Grant Program	16.738	2008-DJ-BX-0491	<u>2,282</u>
Total U.S. Department of Justice			<u>1,051,699</u>
<u>U.S. Department of Labor</u>			
Direct Program:			
Bridge to Work Ear Marked Grant	17.261	EA-18590-09-60-A-6	189,817
Workforce Investment Act Cluster: *			
County of Los Angeles One-Stops	17.260	01-H447	58,983
Passed through the County of Los Angeles:			
CTR LA CO	17.260	09-H258	75,000
Passed through the City of Pasadena:			
Foothill ETC	17.260	20002	832,218
Passed through the State of California:			
Office of Employment Development Department:			
Workforce Investment Act	17.258/17.259/17.260/17.261	K074167	3,964,113
		R865495	179,698
		R970563	1,014,650
ARRA - Workforce Investment Act Cluster	17.258/17.259/17.260	K074167	149,890
		K077165	42,433
		R970563	<u>3,449,002</u>
Total U.S. Department of Labor			<u>9,955,804</u>

See Notes to the Schedule of Expenditure of Federal Awards

CITY OF HAWTHORNE, CALIFORNIA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<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	\$ 79,153
Passed through State of California			
Department of Transportation:			
Highway Planning and Construction *	20.205	STPL-5253(013)	718,061
ARRA - Highway Planning and Construction *	20.205	ESPL-5253(015)	2,600,000
		ESPL-5253(014)	35,000
Passed through State of California			
Office of Traffic Safety:			
Sobriety Checkpoint Program	20.600	SC10171	17,507
Seat Belt Compliance Program	20.600	CT09171	11,339
Selective Traffic Enforcement Program	20.600	PT1030	58,902
Total U.S. Department of Transportation			<u>3,519,962</u>
<u>U.S. Department of Energy</u>			
Direct Program:			
ARRA - Energy Efficiency and Conservation Block Grant	81.128	DE-SC0002108	338,328
Total U.S. Department of Energy			<u>338,328</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	273,864
Total U.S. Department of Education			<u>273,864</u>
<u>U.S. Department of Health and Human Services</u>			
Passed through the County of Los Angeles:			
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families State Program *	93.714	COH07001	90,389,671
Total U.S. Department of Health and Human Services			<u>90,389,671</u>
Total Federal Expenditures			<u>\$ 120,704,760</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 \$1,000.

Note d: Total amount provided to subrecipients during the year from the Job Training Partnership Act Grant amounted to \$12,169,186.

See Notes to the Schedule of Expenditure of Federal Awards

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, 2010**

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>
14.248	Section 108 Guaranteed Loan
14.871	Housing Assistance Payment Program
17.258/17.259/17.260	Section 8 Workforce Investment Act Cluster
20.205	ARRA - Highway Planning and Construction
93.714	ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs

Dollar threshold used to distinguish between type A and type B program \$3,000,000

Auditee qualified as low-risk auditee? yes no

CITY OF HAWTHORNE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Number: 2010-1

The beginning fund balance of the South Bay Workforce Investment Board fund was restated by \$15,413,197 to correct prior year receivables and deferred revenue overstated. In addition, governmental activities beginning net assets were restated by \$261,325 to correct prior year depreciation expense. As a result governmental activities beginning net assets have been restated by a total of \$15,674,522.

Management's Response: We are in agreement with the finding. The SBWIB staff was working with Finance staff but because of staff turnover the reconciliation did not occur in a timely manner.

Finding Number: 2010-2

During the year, the existence of three bank accounts used for City's discretionary expenses and opened by management employees was determined. These bank accounts and their activities were not recorded on the City's general ledger and the disbursements from these accounts were not approved by Council. Upon further test work and inquiry with City staff, certain disbursements from these accounts could not be substantiated by an invoice or other supporting documentation. We recommend that new bank account be authorized by the City Council before being opened at a financial institution, and that bank accounts be recorded in the general ledger and reconciled periodically. Two of the bank accounts have been closed and the balances have been deposited in the City's general checking account. The third bank account has been reconciled and is now recorded in the general ledger.

Management's response: We are in agreement with this finding. Per independent auditors, this finding was resolved.

Finding Number: 2010-3

During our audit procedures, we confirm annually on a sample basis certain notes and loans receivable. From our sample of 10 confirmations mailed out, we received four responses. One was correct, meaning that the holder of the note agreed with the amount that the City had recorded as notes receivable in the general ledger. One was incorrect. The note recipient was saying that the amount should have been zero. Upon further research with the City, we discovered that the amount on the general ledger was incorrect and should have been \$40,000 instead of \$80,000. Two other confirmations were returned to our office as undeliverable. Upon further research with the City, we discovered that one of the notes receivable was a grant instead of a loan. For the other one, the holder of the note had sold the property and moved out when the loan should have been repaid to the City when the property was sold. The City is currently trying to recover the amount. Also, the amount on the general ledger was the original amount of the note and not the outstanding balance at June 30, 2010. Adjusting entries have been provided to adjust the balance in the general ledger.

We recommend that management review the collectability of all the notes and loans receivables and reconcile the balance to the general ledger. For loans that are to be repaid upon the sale of a property, a lien should be recorded on the property when the loan is made. Loans that qualify as grants should be clearly identified as a grant and recorded accordingly in the general ledger.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Since the collectability of the loans and notes receivables could not be determined and the related deferred revenue could not be ascertained, we have qualified our audit opinion. The notes and loans receivables are fully offset by deferred revenue in an equal amount, therefore there is no effect on fund balances and net assets.

Management's response: We are in agreement with this finding. The City is now in the process of reconciling all loans and notes receivables to the general ledger.

Finding Number: 2010-4

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 expenditures incurred and eligible for reimbursement, and to set up deferred revenue. We recommend that all grant activities be reconciled shortly after fiscal year end to ensure that all grants receivables and deferred revenue are properly set up.

Management's Response: Due to staff shortages because of turnovers and leaves of absence, the City was unable to reconcile all grants to the general ledger.

Finding Number: 2010-5

In our review of the payroll accrual, we noted that the payroll benefit liability accounts had not been reconciled. After being notified, the City reconciled the balance and provided an adjusting entry to correct the balances. We recommend that the payroll benefit accounts be reconciled at least at the end of the fiscal year.

Management's response: We are in agreement with this finding. Per the independent auditors, finding #2010-5 was resolved.

Finding Number: 2010-6

During our search for unrecorded liabilities, we noted four invoices where a portion of the goods received and services performed prior to the end of the fiscal year were not recorded as payable at June 30, 2010. Also, we noted one invoice accrued as account payable for goods and services received after June 30, 2010. An audit adjusting entry has been provided to record the expenditures in the proper fiscal year. We recommend that the City review its year end accounts payable accrual procedures to ensure that expenditures are recorded in the proper accounting period.

Management's response: We are in agreement with this finding. The City provided an adjusting entry to correct the finding. Per the independent auditors, this finding was resolved.

Finding Number: 2010-7

As of our year-end field work on November 15, 2010, capital assets were not reconciled. We recommend that the City analyze its capital outlay expenditure at the end of the fiscal year and capitalize capital assets in accordance with its capital assets policy. We also recommend that capital projects not completed at the end of the fiscal year be classified as construction in progress and reclassified as capital assets when projects are completed.

Management's response: We are in agreement with this finding. Finding #2010-7 will be resolved for future year-end procedures.

CITY OF HAWTHORNE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Finding Number: 2010-8

During the year, the South Bay Workforce Investment Board Fund had over \$189 million in revenues and expenditures budget adjustments that were not properly approved by City Council. The majority of the adjustments were made due to the large amount of federal stimulus monies that the City received. We recommend that all adjustments made to the adopted budget be properly approved by City Council in a timely manner.

Management's Response: The SBWIB has always tried to provide the necessary changes to the City to modify the budget properly.

CITY OF HAWTHORNE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding Number: 2010-9

Federal Program:

CFDA number: 17.258/17.259/17.260
Title: Workforce Investment Act Cluster
Federal Grantor: Department of Labor
Grant Number: Various

Criteria or specific requirement:

The City is required to monitor subrecipients to verify they are using the funds for purposes approved by the federal agency and ensure that the subrecipient has had audits as required.

Condition:

Management indicated that they were aware of the requirement, however, no subrecipient monitoring was performed during the year on some of its subrecipients.

Questioned Costs:

None

Effect:

The City was unable to verify whether or not the subrecipient complied with the requirements of the grant.

Recommendation:

The City should develop and document procedures to ensure that the monitoring process of the subrecipient is completed in a timely manner and maintain documentation that it was performed in order to comply with the grant requirements.

Management's Response:

The SBWIB has always monitored each subcontractor over the years but inadvertently missed two this past year.

CITY OF HAWTHORNE

**SCHEDULE OF PRIOR YEAR 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.

Status: No instances noted in the current period.

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.

Status: Similar instances were noted in the current period.

Management's Response: It was the City's policy to capitalize the Airport fund infrastructure additions in the year the grant was completed. Due to current year staff shortages, the unfinished projects were not recorded as construction in progress.

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.

Status: Similar instances were noted in the current period.

Management's Response: We are in agreement with this finding. The City provided an adjusting entry to correct the finding. Per the independent auditors, this finding was resolved.

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.

Status: Similar instances were noted in the current period.

CITY OF HAWTHORNE

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

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Management's Response: Due to staff shortages because of turnovers and leaves of absence, the City was unable to reconcile all grants to the general ledger.

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, 2010

<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:		
Probation Grants		\$ 95,072
California Green Grant		12,374
		<hr/>
Total Non-Federal Expenditures		\$ 107,446