

Single Audit Report
City of Hawthorne, California
Year ended June 30, 2012
with Report of Independent Auditors

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**Report of Independent Auditors 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***

**The Honorable Mayor and Members of City Council
City of Hawthorne**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hawthorne, California, as of and for the year ended June 30, 2012, and have issued our report thereon dated March 29, 2013. Our report on the basic financial statements of the City of Hawthorne, California was qualified because we were unable satisfy ourselves as to the balance of notes and loans receivable by performing other auditing procedures. Except as discussed in the preceding sentence, 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

Management of the City of Hawthorne is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Hawthorne'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 of Hawthorne's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hawthorne'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 significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be material weakness.

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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item FS2012-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hawthorne's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the City of Hawthorne in a separate letter dated March 29, 2013.

The City of Hawthorne'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 of Hawthorne's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the City Council, management, federal and state awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Vargus + Company LLP

Los Angeles, California
March 29, 2013

Report of Independent Auditors on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance, and on the Schedule of Expenditures of Federal Awards, in Accordance with OMB Circular A-133

**The Honorable Mayor and Members of City Council
City of Hawthorne**

Compliance

We have audited the compliance of the City of Hawthorne, California with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. The City of Hawthorne's major federal programs are identified in the summary of auditors' 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 of Hawthorne's management. Our responsibility is to express an opinion on the City of Hawthorne's compliance based on our audit.

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

In our opinion, the City of Hawthorne 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, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items F2012-01 and F2012-02.

Internal Control Over Compliance

The management of the City of Hawthorne 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 of Hawthorne'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 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 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 of Hawthorne'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 a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item F2012-02 to be a significant deficiency. A significant deficiency is a deficiency, or a 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.

City of Hawthorne'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 of Hawthorne's responses and, accordingly, we express no opinion on the responses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hawthorne as of and for the year ended June 30, 2012, and have issued our report thereon dated March 29, 2013, which contained a qualified opinion on those financial statements. Our opinion on the basic financial statements of the City of Hawthorne was qualified because we were unable satisfy ourselves as to the balance of notes and loans receivable by performing other auditing procedures. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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 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, except for the effect on the accompanying schedule of expenditures of federal awards, of adjustments, if any, as might have been determined to be necessary to correct the balance of loans and notes receivables and record adequate allowance for doubtful accounts, the accompanying information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management, federal and state awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Vargay + Company LLP

Los Angeles, California

March 29, 2013

City of Hawthorne
Schedule of Expenditures of Federal Awards
Year ended June 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Program Identification Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Direct Assistance:			
Community Development Block Grant	14.218	B-09-MC-06-0519	\$ 836,722
Section 108 Guaranteed Loan	14.248	Various	749,666
Home Investment Partnership Program (HOME)	14.239	M-09-MC-06-0513	219,444
Homeless Prevention Rapid Re-Housing Program -ARRA	14.257	S-09-MY-06-0519	29,514
Housing Assistance Payment Program Section 8	14.871	HAPP Various	6,035,927 *
Passed through the County of Los Angeles and Other Cities:			
Housing Assistance Payment Program Section 8	14.871	Various	4,931,469 *
Total U.S. Department of Housing and Urban Development			<u>12,802,742</u>
<u>U.S. Department of Justice</u>			
Direct Assistance:			
Federal Asset Forfeiture Program	16.000	CA0192800	311,960
Juvenile Justice and Delinquency Prevention:			
CalGRIP	16.540	GR 10026850	207,468
Bureau of Justice Assistance:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2009-DJ-BX-0471	30,829
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010-BJ-DX-1543	21,120
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-BJ-DX-2931	59,259
Edward Byrne Memorial Justice Assistance Grant Program - ARRA	16.804	2009-SB-B9-2024	129,096
Total U.S. Department of Justice			<u>759,732</u>
<u>U.S. Department of Labor</u>			
Workforce Investment Act Cluster:			
County of Los Angeles One-Stops	17.260	IT111201	75,000
LA County Youth Employment	17.260	IA1103	203,000
Passed through the City of Pasadena:			
Foothill ETC	17.260	19755	19,748
Passed through the State of California:			
Office of Employment Development Department			
Workforce Investment Act Adult Program	17.258	K282511	523,996
Workforce Investment Act Formula Youth	17.259	K282511	636,078
Workforce Investment Act Dislocated Workers	17.260	K282511	408,238
Workforce Investment Act Dislocated Worker Formula Grants	17.278	K282511	242,468
Workforce Investment Act Adult Program	17.258	K178686	9,046
Workforce Investment Act Dislocated Worker Formula Grants	17.278	K178686	473,696
Workforce Investment Act Formula Youth	17.259	K178686	113,330
Total U.S. Department of Labor			<u>2,704,600</u>

* Denotes major program

See accompanying notes to Schedule of Expenditures of Federal Awards.

City of Hawthorne
Schedule of Expenditures of Federal Awards
Year ended June 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Program Identification Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Transportation</u>			
Direct Assistance:			
Federal Aviation Administration			
Airport Improvement Program-Emergency Generator	20.106	3-06-0101-013-2011	12,058
Airport Improvement Program-Noise Study	20.106	3-06-0101-012-2011	204,198
Passed through the County of Los Angeles			
Highway Planning and Construction			
2009 Street Improvements	20.205	HSIPL-5253	4,038,793
Hawthorne Mobility Improvement	20.205	CFPF-3109	100,430
Passed through the State of California			
Office of Traffic Safety:			
Sobriety Checkpoint Program	20.600	SC10171	30,820
Total U.S. Department of Transportation			<u>4,386,300</u>
<u>U.S. Department of Homeland Security</u>			
Passed Through County of Los Angeles:			
2009 Urban Security Initiative	97.067	C-118803	<u>43,045</u>
<u>U.S. Department of Education</u>			
Passed through the State of California			
Department of Education:			
21st Century Community Centers Learning Grant	84.287	19-14535-2377-4A	<u>206,690</u>
<u>U.S. Department of Health and Human Services</u>			
Passed Through County of Los Angeles:			
Temporary Assistance for Needy Families - LA County Single Allocation	93.558	COH0700103	12,688,861 *
Total U.S. Department of Health and Human Services			<u>12,688,861</u>
Total expenditures of federal awards			<u>\$ 33,591,969</u>

* Denotes major program

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Scope of Presentation

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

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.

NOTE 2 RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Grant expenditure reports as of June 30, 2012, which have been submitted to grantor agencies, will, in some cases, differ from amounts disclosed herein. The reports for grantor agencies are typically prepared at a later date and often reflect refined estimates of the year-end accruals.

NOTE 3 RELATIONSHIP TO FINANCIAL STATEMENTS

In accordance with the governmental Accounting Standards Board's Statement No. 39 "Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14," activities relating to all federal financial assistance programs are blended in the City's financial statements as special revenue funds.

NOTE 4 MAJOR PROGRAMS

The following Catalog of Federal Domestic Assistance (CFDA) programs were tested as major programs:

Housing Assistance Payment Program Section 8	CFDA #14.871
Temporary Assistance for Needy Families - LA County Single Allocation	CFDA # 93.558

NOTE 5 PAYMENTS TO SUBRECIPIENTS

There were subrecipient grants awarded from U.S. Department of Housing and Urban Development, Community Development Block Grant - Entitlement Grant. These subrecipient grants totaled \$236,914.

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued on the financial statements: Qualified

Internal control over financial reporting:

- Material weakness(es) identified: Yes
- Significant deficiency(ies) identified that are not considered to be material weaknesses? No

Noncompliance material to the financial statements noted: No

Federal Awards

Internal control over its major programs:

- Material weakness(es) identified: No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes

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 OMB Circular A-133? Yes – F2012-01 and F2012-02

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.871	Housing Assistance Payment Program - Section 8
93.558	Temporary Assistance for Needy Families – LA County Single Allocation

Dollar threshold used to distinguish between Type A and Type B programs: \$1,007,759

Auditee qualified as a low-risk auditee: No

Section II – Financial Statement Findings

FS 2012-01: Notes and Loans Receivable

Condition and Context

We noted that the schedule of notes and loans receivable was not updated and reconciled with the general ledger. We were unable to review documentation supporting total loans receivable of approximately \$6.5 million as of June 30, 2012. Moreover, review of collectibility of the accounts was not performed as of June 30, 2012.

Cause and Effect

This is a recurring finding from prior years. The accounting records are still not updated and reconciled because of lack of coordination between departments and inadequately trained accounting personnel. Not reconciling the accounts on a timely basis means that errors or irregularities might not be detected and resolved on a timely basis.

Recommendation

We recommend that the City of Hawthorne review the collectibility of all notes and loans receivable and reconcile the balance to the general ledger as part of the monthly closing process. Moreover, all documents including loan agreements supporting the balance of each loan should be properly filed.

Management Response

It has been the policy of the City to reconcile all notes and loans receivables at least once per year. Adjusting entries were made to correct the balance in the general ledger. Notes and loans receivables are fully offset by deferred revenue in equal amount so there is no effect on fund balances and net assets.

The City is committed to establishing a proper filing system to ensure that loan documents and other supporting information is kept on file. In addition, such notes and loans receivables will be reconciled to the general ledger at least once per year and reconciled as part of the year-end closing process.

Section III – Federal Award Findings

F 2012-01

Eligibility & Special Tests and Provisions – Housing Assistance Payments

Federal Program Information

<i>Federal Catalog Number:</i>	14.871
<i>Federal Program Name:</i>	Housing Assistance Payment Program – Section 8
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Federal Award Year</i>	FY 2011-12

Criteria

The Participating Housing Authority (PHA) must pay a monthly HAP (Housing Assistance Payment) on behalf of the family that corresponds with the amount on line 12u of the HUD-50058. This HAP amount must be reflected on the HAP contract and HAP register. (24 CFR section 982.158 and 24 CFR part 982, subpart K).

The Housing Authority of the City of Hawthorne's Administrative Plan and the Family Handbook states as follows "HUD determines the amount of funding that is available for rental assistance in each community. It is important to ensure that the funds are used to assist only those families who are eligible. The reason PHAs have waiting lists is that there isn't enough funding to assist all of the families who apply. The PHA assumes that the information provided by families is complete and accurate but occasionally they find that it is not. Making false statements and providing false information are serious violations of program rules as well as violations of state and federal criminal laws. Families who provide false information or documents: Are subject to denial or termination of assistance, are required to repay any amounts that were paid by the PHA and may be subject to criminal penalties under state or federal law if it is determined that their actions are intentional".

Condition

From a sample of thirty (30) tenants selected we noted that one (1) tenant reported his/her income incorrectly. Furthermore, based upon review of the tenant file we noted no documentation supporting how this issue was resolved.

Effect

The Housing Authority of the City of Hawthorne is in violation of applicable federal laws as well as its own housing regulations. This instance may potentially deny eligible participants on the waiting list the chance to participate in the housing program.

Recommendation

We recommend that the Housing Authority of the City of Hawthorne implement procedures designed to ensure compliance with applicable federal laws as well as its own housing rules and regulations.

Management Action Plan

The Housing Authority of the City of Hawthorne practices a zero tolerance policy when it comes to Section 8 participants who are in violation of Family Obligations as listed in 24CFR 982.55. The Housing Authority now gives a two-week deadline to the employer to provide income verification information. If the required information is not provided within the two week period, the Housing Authority requires the tenant to provide the following:

- Effective dates of employment.
- Pay rate, number of hours worked, pay frequency.
- Copies of paystubs, at least 3 consecutive.

For the noted exception, a letter of verification was sent to the tenant's employer and tenant has been given a deadline to provide the required information. Furthermore, the Housing Authority of the City of Hawthorne will conduct periodic internal reviews to ensure compliance with all rules and regulations.

F 2012-02

Special Tests and Provisions – Housing Quality Standards Inspection Enforcement

Federal Program Information

<i>Federal Catalog Number:</i>	14.871
<i>Federal Program Name:</i>	Housing Assistance Payment Program – Section 8
<i>Federal Agency:</i>	Department of Housing and Urban Development
<i>Federal Award Year</i>	FY 2011-12

Criteria

The PHA must inspect the unit leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS) and the PHA must conduct quality control re-inspections. The PHA must prepare a unit inspection report (24 CFR sections 982.158(d) and 982.405(b)).

For units under HAP contract that fail to meet HQS, the PHA must require the owner to correct any life threatening HQS deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. If the owner does not correct the cited HQS deficiencies within the specified correction period, the PHA must stop (abate) HAPs beginning no later than the first of the month following the specified correction period or must terminate the HAP contract. The owner is not responsible for a breach of HQS as a result of the family's failure to pay for utilities for which the family is responsible under the lease or for tenant damage. For family-caused defects, if the family does not correct the cited HQS deficiencies within the specified correction period, the PHA must take prompt and vigorous action to enforce the family obligations (24 CFR sections 982.158(d) and 982.404).

Condition

From a sample of fifteen (15) failed inspections, we noted four (4) homes for which the required deficiencies were not corrected within the specified time period.

Effect

The Housing Authority of the City of Hawthorne is not in compliance with applicable federal laws and regulations and its own housing policies and procedures.

Recommendation

We recommend that the Housing Authority of the City of Hawthorne implement procedures designed to ensure compliance with applicable federal laws as well as its own housing rules and regulations regarding maintaining HQS.

Management Action Plan

The Housing Authority of the City of Hawthorne has adopted local requirements of acceptability in addition to those mandated by HUD Regulations 24 CFR 982.401(a), 982.405. The Housing Authority uses the term HQS, Housing Quality Standards, to define the minimum quality standards mandated by HUD and the standards set forth in the City of Hawthorne's Building Code. The reasons for the delays were as follows:

1. The owner of one of the Section 8 occupied units experienced foreclosure. There was no legal owner to contact and do the correction. Up to the time the tenant ported back to L.A. City, the particular unit was never re-inspected. Papers to transfer back to L.A City and letter from tenant regarding foreclosure are in the file.
2. From January 10, 2012 to February 13, 2012, there were 14 days that the City Hall was closed. These dates fall in between the initial date of inspection and the pass-date. Thus, follow ups relating to initial inspections were made after the 30 days due to the closure of City Hall during the period.

For emergency items which endanger the family's health or safety, the Housing Authority has the policy of instructing owners to do the repair and correction within 24 hours. Furthermore, in order to prevent these incidents from happening in the future, the Housing Authority of the City of Hawthorne will conduct periodic internal reviews to ensure compliance with all rules and regulations.

City of Hawthorne
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2012

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
Financial Statement Findings				
2011-01	<p>This year's closing process was delayed because some important procedures were not performed on time. These include:</p> <ul style="list-style-type: none"> • Reconciliation of major balance sheet accounts. Notes and loans receivable were not updated and reconciled with the general ledger in a timely manner. • Grants receivable, deferred revenues, interfund balances and transfers were also not reconciled. • Cut off procedures. Cut off procedures relating to year-end accruals were inadequate to ensure the recording of transactions in the proper period. 	<p>We recommend that the City of Hawthorne establish and document proper closing and reconciliation procedures and assign responsibility for completing the procedures to specific City personnel. The closing procedures should be documented in a checklist that indicates who will perform each procedure and when completion of each procedure is due and is accomplished.</p>	<p>Partially Implemented See FS 2012-01</p>	<p>Shortage of resources</p>

City of Hawthorne
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2012

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
Financial Statement Findings				
2011-02	<p>Our audit procedures on notes and loans receivable include confirming annually on a sample basis certain notes and loans receivable. From our sample of 40 accounts, only 31 confirmations were mailed out because the City cannot find any information regarding the borrowers including current addresses for the other 9. Out of the 31 confirmations mailed out, we received only 13 responses. Five of the 13 responses do not agree with the borrower's records and two other confirmations were returned to our office as undeliverable.</p> <p>We noted that the schedule of notes and loans receivable was not updated and reconciled with the general ledger. Moreover, review of collectibility of the accounts was not performed.</p>	<p>We recommend that the City of Hawthorne review the collectibility of all notes and loans receivable and reconcile the balance to the general ledger. Moreover, all documents including loan agreements supporting the balance of each loan should be properly filed.</p>	<p>Not Implemented See FS2012-01</p>	<p>Shortage of resources</p>

City of Hawthorne
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2012

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
2011-03	During our audit of grants receivable and deferred revenue, we noted that grants receivable and deferred revenue were not reconciled to the general ledger at the end of the fiscal year. This situation required the recording of several audit adjusting entries to accrue grants receivable for expenditures incurred and eligible for reimbursement under the grant. Moreover, deferred revenues for grants received in advance had not been reviewed and adjusted at the end of the year.	We recommend that all grant activities be reconciled regularly and shortly after fiscal year end to ensure that all grants receivable and related deferred revenue are properly recorded.	Implemented	Not Applicable
2010-4	During our analysis of interfund activity, it was determined that advances to and from and due to and from other fund accounts were not in balance.	We recommend that management enhance the review process to provide for monitoring of accounts that should be in balance to ensure that they are in balance and properly recorded in the general ledger. In addition, all journal entries should be reviewed for propriety, reasonableness and accounting accuracy by appropriate and knowledgeable personnel before posting to general ledger	Implemented	Not Applicable

City of Hawthorne
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2012

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
2011-05	During our audit of long-term debt and reconciliation of beginning fund balance, we noted material errors in recording of proceeds from bond issuance and repayment of outstanding debt.	We recommend that journal entries made by accounting personnel be reviewed for propriety, reasonableness and accounting accuracy by appropriate and knowledgeable personnel before posting to general ledger. Moreover account balances should be reviewed timely to ensure that balances are correct and reconciled with the general ledger.	Implemented	Not Applicable
2011-06	During our audit of capital assets, it was noted that capital projects for which construction was not complete at year end were not classified as construction in progress and reclassified to capital assets upon projection completion.	We recommend that the City analyze its capital expenditures at year end and capitalize capital assets in light of its capitalization policy. We also recommend that capital projects not completed at year end be classified as construction in progress and reclassified as capital assets when projects are completed.	Implemented	Not Applicable

City of Hawthorne
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2012

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
2011-07	<p>As required by the provisions of the City's Municipal Code, the City shall adopt a balanced budget before the beginning of the fiscal year. The City's annual budget provides the legal authority for expenditures and a means of control of municipal operations throughout the fiscal year.</p> <p>For the year ended June 30, 2011, the City had several expenditure items which exceeded the approved budget during the year, details of which are disclosed in Note 2 to the City's financial statements. Moreover, there were transfers that exceeded the budgeted amount during the year.</p>	<p>The City should revisit and review its budget process to make sure that: (1) department heads are involved in the budget process, (2) budget amounts are critically reviewed and justified, and (3) there are financial resources or sufficient revenue inflows that would fund the budgeted expenditures.</p>	Implemented	Not Applicable

City of Hawthorne
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2012

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
2011-08	<p>Incorrect amounts reported in the Schedule of Federal Awards (SEFA)</p> <p>During our audit of EECBG grant, it was noted that the amount reported in the SEFA of \$934,972 is not correct. This amount includes expenditures funded by local funds. The total federal award for EECBG is only \$769,900. Of this amount, \$338,328 was already reflected in the FY 2009-10 single audit report. Therefore, the remaining federal expenditures that should have been recorded in SEFA for FY 2010-11 would only be \$431,572.</p>	<p>We recommend that the City ensure that key internal control processes are implemented including proper classification and recording of expenditures that are funded by federal funds. Adequate review of the SEFA should be performed by personnel knowledgeable of federal requirements.</p>	Implemented	Not Applicable

City of Hawthorne
Status of Prior Year Findings and Questioned Costs
Year ended June 30, 2012

Finding Reference	Finding Description	Recommendation	Current Status	Explanation if not fully implemented
2011-09	<p>Energy Efficiency and Conservation Grant-ARRA (CFDA 81.128)</p> <p>During our audit, we noted that the following reports were submitted late during the year.</p> <ul style="list-style-type: none"> • Federal Financial Report (SF-425) Qtr 1 - July 1, 2010 - September 30, 2010 – submitted November 30, 2010 (31 days late) • Quarterly reporting to DOE (via PAGE) Qtr 3 – January 1, 2011 – March 31, 2011 – submitted June 13, 2011 (44 days late) 	The City should review its current procedures over financial and program reporting to ensure timely submission of the required reports.	Implemented	Not Applicable

