

**CITY OF LA HABRA, CALIFORNIA**  
**SINGLE AUDIT OF FEDERALLY ASSISTED**  
**GRANT PROGRAMS**

**JUNE 30, 2019**

CITY OF LA HABRA

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INDEPENDENT AUDITORS' 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*

The Honorable Mayor and  
Members of the City Council  
of the City of La Habra  
La Habra, California

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of La Habra, California (the City), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 20, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding Number 2019-001, that we consider to be a significant deficiency.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 or other matters that are required to be reported under *Government Auditing Standards*.

## **City's Response to the Finding**

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*White Nelson Dick Evans LLP*

Irvine, California  
December 20, 2019

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE AND ON THE SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS

The Honorable Mayor and  
Members of the City Council  
of the City of La Habra  
La Habra, California

### **Report on Compliance for Each Major Federal Program**

We have audited the City of La Habra, California's (the City) compliance with the types of compliance requirements described in the *OMB 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, 2019. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

## **Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of 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, 2019.

## **Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, 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.

*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. A *significant deficiency in internal control over compliance* is a deficiency, or a 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance**

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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 20, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements.

**Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance  
(Continued)**

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance 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 basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*White Nelson Nick Evans LLP*

Irvine, California

January 22, 2020 (except for the date of the schedule of expenditures of federal awards, as to which the date is December 20, 2019)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

CITY OF LA HABRA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2019

Federal Grantor / Pass - Through Grantor / Program / Cluster Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Subrecipient Expenditures
<u>United States Department of Agriculture:</u>				
Passed through State of California Department of Education:				
Child and Adult Care Food Program	10.558	04320-CACFP-30-GM-CS	\$ 204,181	\$ -
Child and Adult Care Food Program	10.558	04320-CACFP-30-GM-DCH	1,412,733	1,235,643
Total United States Department of Agriculture			1,616,914	1,235,643
<u>United States Department of Housing and Urban Development:</u>				
Direct Assistance:				
Community Development Block Grant	14.218	B-16-MC-06-0582	20,905	-
Community Development Block Grant	14.218	B-17-MC-06-0582	109,409	-
	14.218	B-18-MC-06-0582	357,154	23,640
Total United States Department of Housing and Urban Development			487,468	23,640
<u>United States Department of Interior:</u>				
Direct Assistance:				
Water SMART (Sustaining and Manage America's Resources for Tomorrow)	15.507	R18AP00171	250,326	-
Total United States Department of Interior			250,326	-
<u>United States Department of Justice:</u>				
Direct Assistance:				
Bulletproof Vest Partnership Program	16.607	2018BUBX18091298	6,861	-
Total United States Department of Justice			6,861	-
<u>United States Department of Labor:</u>				
Passed through California Orange Community Services Agency:				
WIA/WIOA Youth Activities	17.259	18-28-0011-Y	601,422	-
Total United States Department of Labor			601,422	-
<u>United States Department of Transportation:</u>				
Passed through California State Transportation Agency:				
State and Community Highway Safety	20.600	PT18084	13,265	-
State and Community Highway Safety	20.600	PT19055	28,181	-
Total State and Community Highway Safety			41,446	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT18084	21,371	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT19055	24,077	-
Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated			45,448	-
Highway Planning and Construction Recreational Trails Program	20.219	CML-5266(023)	21,143	-
Total United States Department of Transportation			108,037	-

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CITY OF LA HABRA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(CONTINUED)

For the year ended June 30, 2019

Federal Grantor / Pass - Through Grantor / Program / Cluster Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Subrecipient Expenditures
<u>Institute of Museum and Library Services</u>				
Direct Assistance:				
Museums for America	45.301	MA-10-17-0113-17	\$ 99,234	-
Total Institute of Museum and Library Services			99,234	-
<u>United States Department of Health and Human Services:</u>				
Passed through State of California Department of Education:				
Child Care Development Fund Cluster:				
Child Care and Development Block Grant	93.575	CCTR-8155	185,437	29,326
Child Care and Development Block Grant	93.575	CSPP-8338	33,877	-
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	CCTR-8155	403,395	63,777
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	CSPP-8338	73,758	-
Total Child Care Development Fund Cluster			696,467	93,103
Passed through Orange County Head Start:				
Head Start	93.600	09-CH9155-05	472,501	-
Total United States Department of Health and Human Services			1,168,968	93,103
<u>United States Department of Homeland Security:</u>				
Passed-through California Emergency Management Agency				
Emergency Management Performance Grant	97.042	2018-0008	7,875	-
Total United States Department of Homeland Security			7,875	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 4,347,105	\$ 1,352,386

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CITY OF LA HABRA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2019

**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of La Habra, California (the City) under programs of the federal government as well as federal financial assistance passed through other government agencies for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial statements of the City. The City's reporting entity is defined in Note 1 of the notes to the City's financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported using the modified accrual basis of accounting for governmental funds and the accrual basis of accounting for proprietary funds, which is described in Note 1 of the notes to the City's financial statements. Expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**3. INDIRECT COST RATE**

The City has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**4. CONTINGENCIES**

Under the terms of federal and state grants, additional audits may be requested by the grantor agencies and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

CITY OF LA HABRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2019

1. SUMMARY OF AUDITORS' RESULTS:

*Financial Statements*

Type of auditors' report issued:

- Unmodified

Internal control over financial reporting:

- Material weakness identified?                    \_\_\_ yes                      x   no
- Significant deficiencies identified?              x   yes                    \_\_\_ none reported  
    See Finding Number 2019-001

Noncompliance material to financial statements noted:    \_\_\_ yes                      x   no

*Federal Award:*

Internal control over major programs:

- Material weakness identified?                    \_\_\_ yes                      x   no
- Significant deficiency identified?                \_\_\_ yes                      x   none reported

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

- Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a) of the Uniform Guidance?                    \_\_\_ yes                      x   no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
17.259	WIA/WIOA Youth Activities

Dollar threshold used to distinguish between type A and type B programs:                    \$       750,000      

Auditee qualified as low-risk auditee?                      x   yes                    \_\_\_ no

CITY OF LA HABRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

For the year ended June 30, 2019

2. FINDINGS - FINANCIAL STATEMENT AUDIT:

**Finding Number 2019-001**

Criteria

The City has a Council adopted resolution for fees pertaining to water and sewer services rendered to customers.

Condition

During our testing of utility billing internal controls, we noted 2 out of 25 samples where the City did not charge the customer for sewer services. Upon inquiry with management, these customers have active sewer connections and should have been billed for sewer services.

Cause

The initial set up of the customer accounts was not performed properly.

Effect

The City did not bill the customers for sewer services rendered in accordance with the Council resolution.

Recommendation

We recommend the City perform a review of the utility billing accounts to ensure that the City is charging its customers for all the services that are provided such that the City is able to recognize and collect on all revenues that are due to the City.

Management's Response

City will perform a review of water and sewer utility billing accounts whereby each water billing account will be evaluated for a comparable sewer billing account. The review will exclude fire and irrigation service accounts as neither service type produces sewer effluent. In such cases whereas a pairing is not satisfied, field personnel will further evaluate utilizing industry standard techniques (sewer dye testing and closed-circuit televised inspection of City-owned sewer mains) to conclusively determine the existence of a related sewer service. In a similar fashion, each sewer billing account will be evaluated for a comparable water billing account to ensure that all customers are accurately billed for services they receive. This review will prevent any potential billing errors in the future.

CITY OF LA HABRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)

For the year ended June 30, 2019

3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT:

There were no findings or questioned costs for the year ended June 30, 2019.

CITY OF LA HABRA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2019

1. FINDINGS - FINANCIAL STATEMENT AUDIT:

None.

2. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

**Finding Number 2018-001**

Criteria

The City is required by the Equitable Sharing guidelines to submit the Equitable Sharing Agreement and Certification Form within two months after the fiscal year end.

Condition

The City submitted the Equitable Sharing Agreement and Certification Form on December 10, 2018, for the fiscal year ended June 30, 2018.

Current Status

This finding has been corrected.